



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

**FISCAL YEAR 2004
STANDARDS FOR SUCCESS
ACCOMPLISHMENT REPORT**

WASHINGTON, DC



USAID
FROM THE AMERICAN PEOPLE



MESSAGE FROM THE ADMINISTRATOR

This is the second annual report that the Office of Inspector General (OIG) has issued on USAID's progress toward meeting the "standards for success" agreed upon by the OIG and other USAID staff. The standards are consistent with the President's Management Agenda and are drawn from authoritative sources such as laws, regulations, and OMB circulars. The standards have helped advance the dialogue between the OIG and other USAID staff about the outcomes that the OIG is trying to help USAID achieve. The standards describe in unambiguous terms what USAID needs to do to overcome the most important management and performance challenges that we face. They also provide a framework for forward-looking work by the OIG that is oriented toward needed improvements rather than past shortcomings.

It is important to understand that these standards describe significant outcomes which, like all worthwhile endeavors, will require time and effort to achieve. The progress described in the OIG's report reflects a combined effort on the part of OIG staff and other USAID staff, and I want to make clear my recognition and appreciation of their efforts. Given the many demands placed on USAID and the OIG, I think that our progress to date is remarkable. I would particularly like to highlight our recent success in finalizing a human capital strategy that will help USAID address short-term skill gaps and rebuild our human capital over the long term. I also note that the OIG has expressed an unqualified opinion on USAID's financial statements for the second year in a row. Moreover, I note that USAID, with the concurrence of the OIG, recently resolved a longstanding material weakness in computer security. Finally, I am very proud of the role that USAID's staff and partners have played in helping prevent fraud and abuse within USAID's programs. Several years ago, the OIG made an important strategic decision, which was to enlist USAID's staff, and the staff of our grantees and contractors, in helping prevent fraud and abuse. To this end, the OIG has trained thousands of USAID staff and partners to recognize common fraud indicators and has encouraged them to contact the OIG if they encounter any of these fraud indicators. I am certain that this decision has contributed to USAID's success in preventing fraud and abuse.

The OIG plays a valuable role within USAID by providing independent and objective reporting on USAID's programs and operations. When warranted, the OIG also makes recommendations for improvements and these recommendations receive careful consideration from me and my staff. While we may not always agree, the OIG does us a great service when it tells us where, specifically, our efforts have fallen short and how, specifically, we might address these shortcomings. The standards for success have helped us pinpoint some significant issues that need attention and I appreciate the OIG's efforts to provide USAID with reliable and specific reporting to inform our decisions.



USAID
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MESSAGE FROM THE ACTING INSPECTOR GENERAL

USAID's mission is to create a more secure, democratic, and prosperous world for the benefit of the American people and the international community. This mission is highlighted in the *National Security Strategy of the United States of America*, which includes three critical, interdependent components: defense, diplomacy, and development. Recognizing their responsibility for the success of this strategy, the Department of State and USAID have jointly developed a strategic plan for fiscal years (FYs) 2004 - 2009. My office has also developed a strategic plan, consistent with the State-USAID strategic plan, to contribute to and support integrity, efficiency, and effectiveness in all of USAID's activities.

During FY 2002, USAID and the OIG agreed on 57 standards for success that USAID needs to achieve in order to accomplish its mission and overcome the management and performance challenges that confront it. We used the standards to develop our FY 2003 annual plan, and at the end of FY 2003, we issued our first report on USAID's progress toward achieving the standards. This FY 2004 report covers USAID's second year of progress in working with the standards.

We want to make sure that the standards stay relevant and, during the process of developing our FY 2005 annual plan, USAID and the OIG agreed on revisions to several of the standards. Looking to the future, our next annual standards for success report will cover progress toward meeting these revised standards.

I would like to express my appreciation for the work of USAID's staff in support of USAID's strategic plan and the U.S. National Security Strategy. USAID employees have difficult jobs to do and they often work in uncomfortable, isolated, and dangerous conditions. Their commitment, talent, and energy are a tremendous resource for our country. I also appreciate very much the effort that USAID staff have put into helping develop the standards for success and reporting on their progress toward achieving them. They have helped us make the standards for success better and of course we could not have prepared this report at all without their reporting on progress toward achieving the standards. Finally, I am very proud of the work done by OIG staff in support of USAID and in support of the standards for success approach that we have developed.

TABLE OF CONTENTS

Executive Summary	1
Introduction	4
Strategic Goal 1	4
<i>Keep the Administrator and the Congress fully informed of the status of USAID's administration and operations and the need for and progress of corrective actions.</i>	
Strategic Goal 2	5
<i>Promote improvements in the way that USAID manages for results.</i>	
Strategic Goal 3	20
<i>Promote improvements in the way USAID manages its human capital.</i>	
Strategic Goal 4	23
<i>Promote improvements in USAID's accounting for and reporting on financial and program activities and protecting information.</i>	
Strategic Goal 5	30
<i>Preserve and protect USAID program and employee integrity.</i>	

EXECUTIVE SUMMARY

Working with USAID staff, the OIG has developed 58 standards for success that define incremental steps that USAID needs to take to overcome the major management and performance challenges confronting it.¹ Put another way, the standards for success define the outcomes that the OIG wants to help USAID achieve.

The OIG and USAID are committed to a long-term effort to address USAID's management challenges and the standards for success. From USAID's perspective, it will take several years to accomplish the standards for success; from the OIG's perspective, it will take several years to complete audits and investigative work covering all the standards in a reasonably comprehensive fashion.²

The standards for success were first agreed upon by USAID and the OIG during fiscal year (FY) 2002 and were first incorporated into the OIG's operational plans for FY 2003. Last year, the OIG issued a report on USAID's progress toward meeting the standards for success during FY 2003, and this report describes USAID's progress toward meeting the standards during FY 2004.

The standards have evolved since they were first agreed upon by USAID and the OIG. During the OIG's FY 2005 planning process, the OIG and USAID's bureaus and independent

¹ The OIG has identified management challenges in the areas of managing for results, procurement, human capital, financial management, and information technology management.

² The OIG's Strategic Plan for FY 2005 through FY 2010 and Annual Plan for FY 2005 describe the OIG's strategic goals, objectives, and a multiyear work program for addressing the standards for success.

offices together reviewed the standards to ensure their continued relevance. As a result of this joint review, and also as a result of a revision of the OIG's strategic plan to bring it into alignment with the State Department-USAID Strategic Plan for Fiscal Years 2004 - 2009, several of the standards for success were revised. These revised standards were incorporated into the OIG's current strategic plan and annual plan, and the OIG will report on progress toward achieving the revised standards in its next Standards for Success Accomplishment Report covering FY 2005.

The remainder of this executive summary presents USAID's progress toward meeting the standards for success during FY 2004.

KEEPING THE ADMINISTRATOR AND CONGRESS INFORMED

The USAID Inspector General keeps the Administrator and Congress informed of significant issues affecting USAID operations through its audit and investigative reports, briefings, testimony, and Semiannual Reports to the Congress.

In addition, the Inspector General holds regular meetings with the Administrator, and other OIG staff brief key USAID officials on critical issues identified by OIG work throughout the year. Furthermore, the OIG involves USAID management officials in its annual planning process. The Inspector General and Deputy Inspector General also attend the Administrator's weekly staff meetings, along with senior OIG staff who attend these meetings on a rotating basis. The Inspector General and senior OIG leadership maintain regular contact

with relevant oversight and appropriation committees for the foreign affairs agencies as well as with the Government Reform Committee in the House and the Governmental Affairs Committee in the Senate.

During FY 2004, the Inspector General also provided testimony on USAID's contracting practices with emphasis on contracting in Afghanistan and Iraq.

MANAGING FOR RESULTS

While USAID needs to focus attention on performance reporting issues, particularly on the need to report performance information in a timely manner, it is making good progress in integrating performance information with the budget process. USAID has received a "green" rating (the highest possible rating) from OMB for progress toward meeting the President's management initiative on budget and performance integration and, in March 2004, USAID's rating for status on this initiative was raised to "yellow" (that is, a medium rating) from "red" (the lowest rating). The most recent OMB scorecard on the President's Management Agenda made mention of several accomplishments by USAID, including the following:

- USAID developed at least one efficiency measure for more than 50 percent of the USAID programs that underwent the Performance Assessment Rating Tool (PART) process.
- USAID developed a set of common indicators for measuring achievements under those performance goals in the State-USAID Strategic Plan for which USAID is responsible.

- USAID began using a strategic budgeting model to review regional bureau budget submissions.

HUMAN CAPITAL

The ability of USAID to carry out its mission in the 21st century will depend, in part, on how well it manages its workforce. OMB has given USAID a “green” rating for progress in implementing the President’s human capital initiative. In August 2004, USAID issued a Human Capital Strategic Plan that is consistent with the Human Capital Assessment and Accountability Framework jointly developed by the Office of Personnel Management, OMB, and GAO. Although this was a major accomplishment, OMB has still rated USAID’s overall status in this area as “red.” OMB noted that USAID still needs to complete an initial workforce and skill gap analysis and implement strategies to address under representation.

FINANCIAL MANAGEMENT AND INFORMATION TECHNOLOGY

For decades, financial management in the federal government has been identified as a problematic area. In the 1990s, several pieces of reform legislation were passed to focus attention on improving internal control and accounting systems.³ In addition, the President’s Management Agenda assigns a high priority to getting a clean financial audit of the federal government.

USAID’s progress in the financial management area can be illustrated by the recent results of the OIG’s annual audits of USAID’s financial statements. FY 2003 was the first year that the OIG expressed

unqualified opinions on all of USAID’s financial statements, and in FY 2004 the OIG again expressed unqualified opinions on all of the statements. In FY 2003, the OIG’s audit disclosed three material internal control weaknesses (down from seven the previous year) and, in FY 2004, the OIG’s audit disclosed only one material internal control weakness.

However, USAID still faces challenges in the financial management area. For example, it needs to improve controls to prevent over-obligation of funds, record overseas transactions in accordance with the U.S. Government standard general ledger, improve its process for allocating expenses to USAID’s performance goals, better recognize and record accounts payable and accounts receivable, and improve processes for reconciling transactions with other federal agencies. USAID believes that these problems will be largely overcome with full deployment of the new Phoenix accounting system to all USAID accounting stations overseas by FY 2006.

With respect to information technology, USAID has made significant progress in improving capital planning and investment controls. For example, both USAID and OMB report that USAID has submitted business cases to OMB for all investments requiring business cases. USAID has also established a Program Management Office to manage its information technology projects, although the office is not yet fully staffed. USAID has also made significant improvements to its computer security program. In fact, USAID recently reported that a computer security material weakness, first identified in a 1997 assessment of management controls, has been corrected.

PROTECTING INTEGRITY

Like all federal government agencies, USAID needs to maintain high

standards of program and employee integrity. These high standards help maintain public confidence in U.S. foreign assistance programs. Because many of the countries where USAID works have weak accountability and law enforcement mechanisms, USAID faces unusual challenges in this respect. These weaknesses contribute, in many cases, to a high perceived level of corruption.

USAID has established controls that promote program and employee integrity. For example, USAID maintains a field presence in many of the countries where USAID programs operate, helping to deter fraudulent and wasteful uses of USAID funds. USAID operating units perform annual assessments to evaluate management controls, identify risks and vulnerabilities, and establish plans for addressing them. Moreover, USAID sponsors and promotes annual ethics training and fraud awareness training for USAID staff, contractors, and grantees. As a result of the training received, USAID staff, contractors, and grantees are able to identify and prevent fraudulent and abusive activities.

USAID employees are subject to prosecution or disciplinary action or both for any criminal, civil or administrative violations and violations of standards of conduct. USAID contractors and grantees, as well, are subject to criminal or civil prosecution, suspension, or debarment. Often contractors and grantees are made to repay Agency funds that were not used for appropriate purposes and are sometimes ordered to pay criminal and/or civil penalties.

The OIG helps protect USAID’s program and employee integrity primarily through its investigation program, its audit activities, and proactive initiatives. In addition, fraud awareness training and promotion of the OIG Hotline have proven to be

³ This reform legislation includes the Government Management Reform Act, the Federal Financial Management Improvement Act of 1996, and the Debt Collection Improvement Act of 1996.

very effective fraud prevention techniques.

USAID and the OIG need to continue working together to promote and maintain the highest standards of program and employee integrity.

A PROGRESS REPORT ON ACHIEVING THE STANDARDS FOR SUCCESS

INTRODUCTION

With the benefit of substantive participation by USAID's Administrator and USAID staff, the OIG has developed 58 standards for success that define incremental steps that USAID needs to take to overcome the major management and performance challenges confronting it.⁴ By laying out incremental, realistic steps to overcoming the Agency's major management and performance challenges, the standards for success encourage a shared understanding by the OIG and other USAID offices of what the Agency needs to do to overcome these challenges. Put another way, the standards for success define the outcomes that the OIG wants to help USAID achieve.

The standards for success are based on criteria from such sources as laws and regulations, the President's Management Agenda, administration priorities, and USAID policies and procedures. The standards have been shared widely with USAID staff, Office of Management and Budget (OMB) officials, and congressional staff members.

The OIG and USAID are committed to a long-term effort to address USAID's management challenges and the standards for success. From USAID's

perspective, it will take several years to accomplish the standards for success; and from the OIG's perspective, it will take several years to complete audits and investigative work covering all the standards in a reasonably comprehensive fashion.⁵

The standards were first agreed upon by USAID and the OIG during FY 2002 and were first incorporated into the OIG's operational plans for FY 2003. Last year, the OIG issued a report on USAID's progress toward meeting the standards for success during FY 2003. This year's report describes USAID's progress toward meeting the standards during FY 2004.

Where sufficient information is available, the report provides an overall assessment of progress toward each standard. However, for many of the standards, OIG work scheduled for future years must be completed before the OIG can provide such an assessment. In these cases, the report provides USAID's self-assessment of progress toward meeting the standards for success and, where possible, relates the findings of outside authorities, such as OMB and the General Accountability Office (GAO) regarding USAID's progress in each area.

The standards for success themselves have evolved since they were first agreed upon by USAID and the OIG. During the process of developing the OIG's Strategic Plan for FY 2005 through FY 2010 and Annual Plan for FY 2005, the OIG and USAID's bureaus and independent offices reviewed the standards together to ensure their continued relevance. As a result of this joint review and of a revision of the OIG's strategic plan to bring it into alignment with the State Department-USAID Strategic Plan for Fiscal Years 2004 - 2009, several of the standards were revised. These revised standards were incorporated into the OIG's current strategic annual plans. The OIG will report on progress toward achieving the revised standards in its next Standards for Success Accomplishment Report covering FY 2005.

OIG STRATEGIC GOAL 1

Keep the Administrator and Congress fully informed of the status of USAID's administration and operations and the need for and progress of corrective actions.

OIG Strategic Objective 1.1: Provide timely reports and briefings to the Administrator and Congress on the major challenges identified by audits and investigations.

Standard for Success for OIG:

1.1.1 Provide prompt notification to the Administrator and Congress on issues

⁴ The OIG has identified management challenges in the areas of managing for results, procurement, human capital, financial management, and information technology management.

⁵ The OIG's Strategic Plan for FY 2005 through FY 2010 and Annual Plan for FY 2005 describe the OIG's strategic goals, objectives, and a multiyear work program for addressing the standards for success.

of significant importance impacting USAID operations in accordance with the Inspector General Act of 1978.

The USAID Inspector General keeps the Administrator and Congress informed of significant issues affecting USAID operations through its audit and investigative reports, briefings, testimony, and Semiannual Reports to the Congress.

The Inspector General prepares and transmits the Semiannual Report to Congress in accordance with the Inspector General Act of 1978 (IG Act), which sets forth the requirements for the content of the Semiannual Report to Congress. The IG Act also defines the reporting process and required deadlines. The USAID IG reporting is in compliance with the IG Act.

The Inspector General holds regular meetings with the Administrator and other OIG staff brief USAID officials on critical issues identified by OIG work throughout the year. The Inspector General and Deputy Inspector General also attend the Administrator's staff meetings, and other senior OIG staff also attend these staff meetings on a rotating basis. The OIG involves USAID management in the annual planning process, which is intended to identify critical problems requiring OIG assistance.

The Inspector General and senior OIG leadership maintain regular contact with relevant oversight and appropriation committees for the foreign affairs agencies as well as the Government Reform Committee in the House and the Governmental Affairs Committee in the Senate. The Inspector General and OIG staff periodically brief these six committees.

The OIG distributes its audit reports to the interested parties in USAID and in Congress. The OIG distributes its reports in electronic form and provides links to the OIG website, thereby

enhancing timely communication of results from OIG work.

During FY 2004, the Inspector General also provided testimony on USAID's contracting practices with emphasis on contracting in Afghanistan and Iraq.

OIG STRATEGIC GOAL 2

Promote improvements in the way that USAID manages for results.

OIG Strategic Objective 2.1: Provide timely, high-quality services that contribute to improvements in USAID's processes for planning, monitoring, and reporting on program activities and integrating performance information into budget decision making.

Standards for Success for USAID:

2.1.1. USAID has a process of strategic planning, program execution, and reporting that includes the following:

- *A new strategic plan every three years setting out a course of action and accomplishments covering a period of at least five years.*
- *An annual performance plan that sets annual goals with measurable target levels of performance.*
- *An annual performance report that compares actual performance with the annual goals.*

(Government Performance and Results Act of 1993, OMB Circular A-11)

USAID has not yet met this standard for success. USAID is making progress in all three areas described above but needs to focus particularly on the last item dealing with performance reporting.

Strategic Plan

In early FY 2004, USAID and the Department of State released their first joint strategic plan, covering FY 2004 through FY 2009. The plan describes strategic objectives, goals, and priorities for a six-year period. To help accomplish the strategic objectives, goals, and priorities in the plan, USAID and the Department of State have created a joint policy council, co-chaired by the Deputy Secretary of State and the USAID Administrator, and a joint management council, co-chaired by the Under Secretary of State for Management and USAID's Deputy Administrator.

In FY 2005, USAID plans to streamline its strategic planning process, with June 2005 as the target date for revising the relevant chapters of the Automated Directives System (ADS).

The OIG plans to conduct an audit of USAID's strategic plan in FY 2006.

Annual Performance Plan

The OIG reviewed USAID's draft annual performance plan for FY 2004 and concluded that the draft plan included target levels of performance for a majority of the performance indicators in the plan.

Annual Performance Report

As part of its audit of USAID's FY 2004 financial statements, the OIG recently performed a limited review of a draft of the "Management's Discussion and Analysis" (MD&A) section of USAID's FY 2004 Performance and Accountability Report.⁶ The MD&A is a narrative overview, prepared by management, which describes the reporting entity and its mission, activities, program and financial results, and financial condition.

⁶ *Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003* (Audit Report No. 0-000-05-001-C dated November 15, 2004).

The OIG noted that certain performance information in the draft FY 2004 MD&A was from the prior year, FY 2003. As a result, the FY 2004 MD&A did not always provide the reader with an understanding of what was accomplished during the reporting year. On the other hand, the draft MD&A for FY 2004 reported more results for the reporting year than the prior year's MD&A – a significant step in the right direction. USAID needs to further refine its performance reporting system so that the MD&A can include a clear statement of USAID's planned performance goals and targets for the current year and a comparison of these goals with actual results for the reporting year.

The Association for Government Accountants reviewed USAID's previous (FY 2003) Performance and Accountability Report under their Certificate of Excellence in Accountability Reporting Program. The Association noted that USAID's performance and accountability report continues to improve and commended the Agency for its efforts to raise the quality and usefulness of its performance information. However, the Association also believes that the care and consistency with which the performance results, financial information, and auditors' participation are presented still needs some attention.

Researchers from the Mercatus Center at George Mason University also evaluated USAID's FY 2003 Performance and Accountability Report, using 12 evaluation factors grouped under the general categories of transparency, public benefits, and leadership. The USAID report did not score well in their ratings because the researchers generally considered the report difficult to understand and lacking in the three general categories mentioned above. Regarding performance reporting, the researchers noted that the

performance data were not always timely. Furthermore, they noted that OIG audit findings called into question the reliability of the performance data provided by USAID operating units.

2.1.2. "Management's Discussion and Analysis" (part of USAID's annual financial statements) contains meaningful performance information addressing the extent to which programs are achieving their intended objectives. (OMB Bulletin Nos. 97-01, 01-02)

USAID has not yet met this standard for success and needs to focus on including timely information on actual results in the MD&A to do so.

USAID notes that the MD&A section of the FY 2004 Performance and Accountability Report included a detailed identification of USAID's most important goals, results, and continuing challenges. USAID believes that the information in the MD&A is accurate, but dated. To help address this problem, USAID has implemented new systems, like the Online Presidential Initiative Network, that collect data on a quarterly basis. USAID is committed to continuing to implement improvements and suggestions for the overall effectiveness of the MD&A from OIG audits and the Certificate of Excellence in Accountability Reporting review process.

As touched on under the previous standard for success, the OIG recently reported that USAID's current reporting system does not allow the reporting of Agency-wide performance results for the current year. Certain performance information in the FY 2004 MD&A was from FY 2003, making it difficult to tell what was achieved during the reporting year.

The OIG will continue to review USAID's MD&A as part of the OIG's annual audit of USAID's financial statements.

2.1.3. USAID systematically applies performance data to budget decisions and can demonstrate how program results inform budget decisions. Budget processes are efficient and enhance operational efficiency. (OMB Scorecard)

Audits planned for FY 2005 and FY 2006 will help the OIG assess progress toward achieving this standard. Still, it is clear that USAID is making progress toward meeting this standard.

USAID has received a "green" rating (the highest possible rating) for progress toward meeting the President's management initiative on budget and performance integration continuously since September 2002. In March 2004, USAID's rating for status on this initiative was raised to "yellow" (that is, a medium rating) from "red" (the lowest rating). The most recent OMB scorecard on the President's Management Agenda made mention of the following accomplishments by USAID:

- USAID developed at least one efficiency measure for more than 50 percent of the USAID programs that underwent the Performance Assessment Rating Tool (PART) process. (According to USAID's Program and Policy Coordination Bureau, seven USAID programs received a PART rating of "adequate" or better.)
- USAID developed a set of common indicators for measuring achievements under all performance goals in the State-USAID Strategic Plan for which USAID is responsible.
- USAID began using a strategic budgeting model to review regional bureau budget submissions.
- In addition, according to the Bureau for Program and Policy Coordination, USAID

synchronized bureau budget reviews with the State Department, completed a joint USAID-State Department annual planning budget for FY 2006, and developed a joint performance plan with the State Department that contains targets for all regional indicators that were identified through the PART process and included the newly finalized USAID-wide common indicators.

Other USAID bureaus cited anecdotal evidence that reinforce the conclusion that USAID is making progress toward achieving this standard. For example, according to the Bureau for Latin America and the Caribbean, the Bureau's first PART review, in FY 2003, resulted in a rating of "results not demonstrated." Over the next year, the Bureau worked to develop regional-level indicators and follow up on OMB's recommendations. A subsequent PART review in FY 2004 reportedly placed the Bureau's Development Assistance and Child Survival and Health programs in the top third of all government programs rated to date.

In FY 2005 and FY 2006, USAID plans to improve on the strategic budgeting approach used in FY 2004.

The OIG plans to conduct an audit of USAID's implementation of the PART process in FY 2005 and an audit of USAID's performance-based budget in FY 2006.

2.1.4. USAID-funded food aid is provided to intended beneficiaries, and USAID accurately tracks and reports on this aid. (President's Management Agenda and Administration priority)

Three OIG audits planned for FYs 2006, 2007, and 2008 will provide information that will help the OIG assess overall progress toward achieving this standard.

USAID works with cooperating sponsors and the World Food Program to ensure that food assistance reaches those for whom it is intended. Cooperating sponsors report, no less than annually, on the beneficiaries reached and the impact achieved. USAID employees visit Title II food aid programs periodically and monitor the use of resources to help ensure that the food aid reaches the intended beneficiaries.

On March 31, 2004, the OIG issued a capping report entitled *Audit of USAID's Distribution of P.L. 480 Title II Non-Emergency Assistance in Support of Its Direct Food Aid Distribution Program* (Audit Report No. 9-000-04-002-P). This report summarized the results of fieldwork for four audits conducted at USAID missions in Ethiopia, Ghana, Guatemala, and Madagascar. All four missions were found to be monitoring their respective Title II non-emergency programs to ensure that food aid was being delivered to the intended beneficiaries. For example, the missions were maintaining regular contact with the cooperating sponsors and generally conducting periodic field visits to their warehouses and distribution sites. In addition, records showed that missions, for the most part, were receiving required reports from the cooperating sponsors for review. Nevertheless, the audits identified several areas for improvement that prompted audit recommendations. Those areas fell into four main categories:

- Follow-up and Review of Commodity Losses – Missions were not always adequately following up and reviewing commodity loss claims to ensure claims were reviewed and resolved in a timely manner. Prior to the finalization of the audit report, USAID provided guidance through a worldwide mission cable regarding the follow-up and review of commodity loss claims. As a result, the OIG considered this the

final action on this recommendation.

- Tracking of Commodity Losses – Schedules maintained by missions for tracking commodity loss claims were not always accurate.
- Performance of Site Visits – Site visits were not always performed on a regular or systematic basis and, at times, were limited in scope.
- "Voluntary" Contributions – One cooperating sponsor required beneficiaries to make "voluntary" contributions in exchange for their food rations and, in some cases, denied food to those who were unable to pay.

The OIG plans to conduct an audit of USAID's management of P.L. 480 non-emergency monetization programs in FY 2006 and an audit of P.L. 480 emergency assistance programs in FY 2007. In FY 2008, the OIG will perform an audit of USAID's procurement of freight services under the P.L. 480 Title II program.

2.1.5. Training is provided cost-effectively to USAID-funded participants, who use their increased skills in their country of origin. (Administration priority)

An FY 2004 OIG audit described some administrative weaknesses which impact USAID's ability to meet this standard for success, but USAID has stated that quality reviews have generally provided favorable feedback on participant training.

The OIG's *Audit of USAID's Participant Training Activities* (Audit Report No. 9-000-04-005-P dated September 9, 2004) summarized the results of fieldwork from seven audits conducted at selected USAID missions (Bulgaria, the Dominican Republic, Egypt, Mongolia, Nicaragua, Nigeria, and Tanzania) during FYs 2003 and 2004. The missions were meeting many

administrative requirements but were not entering all participants into USAID's training database. New USAID requirements for real-time data entry and data verification in the data base should result in better data. Because of incomplete data and the lack of a tracking system for non-returnees, the auditors could not determine USAID-wide non-returnee rates for overseas participants trained in the United States. However, for the seven missions audited, the number of participants who did not return to their home countries on schedule after training over the past several years was low. The OIG recommended improvements to the tracking of non-returnees and also recommended that missions initiate background checks on prospective participants planning to come to the United States for training. USAID has agreed with these recommendations and has begun to implement them.

2.1.6. USAID can adequately monitor and report on activities not covered by a country strategy. (Administration priority)

USAID has met this standard for success.

USAID's regional bureaus report that they submit activity information sheets for all activities that are not part of a country strategy into the Activities Not Managed In Country database maintained by the Bureau for Program and Policy Coordination.

During FY 2004, the OIG performed a follow-up review on two closed audit recommendations that were intended to help improve USAID's management of activities in non-presence countries.⁷ The auditors concluded that USAID had corrected the

⁷ *Follow-up of Recommendations Included in the Audit of USAID-Funded Activities in Nonpresence Countries, Audit Report No. 9-000-99-005-P, dated February 26, 1999 (Audit Report No. 9-000-04-001-S dated January 8, 2004)*

problems identified in the OIG's previous report.

The OIG plans an audit of USAID activities in non-presence countries in Eastern Africa in FY 2005 and an audit of USAID activities not managed by resident USAID staff in FY 2008.

2.1.7. USAID has a performance measurement process that verifies and validates the reliability of data in the annual reports of individual operating units. (Government Performance and Results Act of 1993 and USAID notice dated December 5, 2001)

USAID provided considerable evidence of progress toward meeting this standard.

The Bureau for Program and Policy Coordination (PPC) stated that USAID's annual report system has internal checks that ensure that the data are consistent and complete. For example, appropriation data, which are collected in a hierarchy of sectors and sub-sectors, are checked to make sure that the various levels are consistent. As they prepare USAID's budget submission, PPC staff thoroughly review the budget and performance data in annual reports for accuracy. After the annual report information has been processed, PPC conducts a post-mortem review with the bureaus. This review – representing PPC's continuing effort to identify problems that it can address through revisions either to the annual report or the ADS – resulted in several changes to annual report guidance in the section on indicators. PPC also emphasizes data quality standards and indicator quality standards in the Planning, Assessing, and Learning course that was reportedly delivered to over 175 people in Washington alone during FY 2004. In addition, ADS Chapter 202 requires USAID staff to monitor the quality of key outputs produced by implementing partners and ADS Chapter 203 requires that the quality of annual report data be

formally assessed at least once every three years.

USAID's regional bureaus report that they continue to emphasize the importance of periodic data quality assessments.

The OIG recently issued an audit on USAID/Ghana's annual reporting process, which disclosed that two of four strategic objective teams assessed could not provide evidence that data quality assessments had been performed for results reported in the Mission's Annual Report, even though the Annual Report indicated that such assessments had been performed. In addition, the two teams could not provide sufficient documentation to demonstrate the accuracy of the results reported for 4 of 20 indicators included in the FY 2004 Annual Report. The auditors recommended that USAID/Ghana verify that data quality assessments are performed as required, verify that documentation is kept to support information included in annual reports, and develop procedures for cross-checking reported information with source documentation. USAID/Ghana agreed with these recommendations but has not yet taken final action to implement them.⁸

2.1.8. USAID provides quick, reliable, and economical program and administrative services to field missions. (Administration priority)

An audit planned for FY 2007 will help the OIG assess USAID's progress in meeting this standard.

The 2004 Administrator's survey, using a scoring system that subtracts the percentage of unfavorable responses from the percentage of favorable ones, shows positive results for all offices in the Management Bureau:

⁸ *Audit of USAID/Ghana's Annual Reporting Process (Audit Report No. 7-641-04-006-P dated July 22, 2004)*

Are Management services meeting your needs?	
Office	2004 Score
Information Services	80
Procurement	63
Overseas Management Support	61
Administrative Services	61
Financial Management	46
Human Resources	15

Through improvements to its budgeting process, information technology management processes, and deployment of the Phoenix accounting system overseas, USAID aims to establish a customer service culture, increase transparency in program and business decision-making, and ensure accountability and compliance with the letter and spirit of the laws governing its activities.

Other USAID/Washington bureaus reported on their field support activities as follows:

- USAID’s Global Health Bureau stated that, in the Administrator’s surveys for FY 2002 and FY 2003, field missions gave the Global Health Bureau the highest satisfaction rating of all USAID/Washington bureaus. Furthermore, the Global Health Bureau stated, its satisfaction rating increase in FY 2003 was the largest of all USAID/Washington bureaus.
- The Democracy, Conflict, and Humanitarian Assistance Bureau stated that it provides field missions with technical assistance, identification and dissemination of best practices and lessons learned, and acquisition and assistance instruments through which field missions may obtain goods and services needed to support their respective programs.

- USAID’s Bureau for Economic Growth, Agriculture, and Trade provides missions with support from Bureau staff members, contract and grant mechanisms with nearly \$3 billion in USAID obligations, analytical tools, information on best practices, training, and risk-sharing through matching grants and similar mechanisms. In FY 2004, the Bureau reportedly received more than 600 requests for temporary duty visits from field missions around the world and Bureau staff responded directly to 447 of these requests.

In FY 2004, at the request of the Global Health Bureau, the OIG conducted an audit to determine whether USAID can improve its ability to commit and obligate funds under its field support agreements. (Field support agreements are contracts, cooperative agreements, and grants managed in Washington that are available for missions to “buy into” to obtain services to support field activities. In FY 2003, the Global Health Bureau received 1,100 field support requests totaling \$428 million.) The OIG auditors concluded that USAID could streamline the process for committing and obligating funds relating to field support agreements. The OIG recommended that the Assistant Administrator for Policy and Program Coordination and the Assistant Administrator for Management coordinate the review, selection and funding of a system to facilitate the commitment of and reporting on field support funds. The OIG also recommended that the Director of the Office of Information Resources Management design, produce and implement the selected system. USAID agreed to take the recommended actions.

In FY 2007, the OIG plans to conduct an audit of field support agreement expenditures.

2.1.9. USAID ensures the security of its employees and implementing partners. (Administration priority)

A planned FY 2007 audit will contribute to an overall assessment of progress in meeting this standard.

USAID’s Office of Security reported several actions that have contributed to achievement of this standard:

- With the State Department’s Diplomatic Security Bureau, the Office of Security developed a Joint Management Council Business Plan that will direct cooperative efforts addressing such areas as security contracting, security training for security professionals and other USAID employees, a security outreach program for USAID’s implementing partners, and expansion and improvement of security infrastructures such as information technology and communications systems.
- The Office of Security developed performance measurements for specific security-related objectives. These measurements were utilized in a PART review effectively linking security program achievements with the budget process.
- Drawing on its liaison with the State Department’s Diplomatic Security Bureau and Intelligence and Research Bureau and other members of the intelligence community, the Office of Security provided advice to USAID in all security, intelligence, and terrorism matters. The Office of Security also provided input to the wider U.S. Government security community through its representation on the Overseas Security Policy Board chaired by the Assistant Secretary for Diplomatic Security.

USAID's regional bureaus state that they coordinate with the Office of Security and the State Department to ensure the security of their employees and implementing partners.

A recent Government Accountability Office (GAO) report recommended that the State Department schedule construction of State Department and USAID facilities on new embassy compounds concurrently to reduce the possibility that USAID staff might have to remain in temporary facilities outside embassy compounds where they could be more vulnerable to terrorist attacks. The State Department and USAID agreed with GAO's findings and recommendations.⁹

The OIG plans to perform an audit of USAID's Office of Security in FY 2007.

2.1.10. USAID implements effective and accountable programs that facilitate conflict resolution and transition to and consolidation of democracy. (Administration priority)

Audits planned for FYs 2005 and 2008 will help the OIG make an overall assessment of USAID's progress toward achieving this standard for success. The Democracy, Conflict, and Humanitarian Assistance Bureau and USAID's regional bureaus are implementing programs designed to facilitate conflict resolution and the transition to and consolidation of democracy.

In FY 2004, the Democracy, Conflict, and Humanitarian Assistance Bureau reportedly sponsored a range of activities related to this standard for success, including development of a conflict assessment framework tool, conflict assessments in several countries, technical assistance, and activities related to peace and conflict

resolution training and dialogue in countries such as Sri Lanka, Burundi, Ethiopia, the Democratic Republic of Congo, Nepal, Nicaragua, Columbia, and Russia. Moreover, the Bureau reports that it implemented 1,500 community-based projects in support of the democracy transition in Iraq.

The Bureau for Asia and Near East stated that it has successfully implemented significant conflict resolution programs in strategically important countries such as Afghanistan, Indonesia, the Philippines, Sri Lanka, and Nepal. The Bureau also reports that it has successfully implemented large and complex democracy support programs in Afghanistan, Iraq, Indonesia, and Pakistan in addition to smaller democracy and governance programs in other countries.

The Bureau for Europe and Eurasia stated that the Bureau's broader democracy and governance and economic growth portfolios contribute to conflict resolution and transition to democracy through an emphasis on civil society, community self-help, and small business development. For example, in the Central Asian Republics, the Community Action Investment Program promotes participatory processes to alleviate sources of potential conflict. In the Balkans region, according to the Bureau, USAID's programs dealing with municipal infrastructure, small and medium business development, and civil society have all emphasized facilitating reconciliation and conflict resolution.

The Africa Bureau reports that USAID has been actively engaged in the resolution of several important conflicts in Africa during the past year, most notably in Liberia, Sudan, and the Great Lakes Region. According to the Bureau, USAID was instrumental in the organization and success of an International Reconstruction Conference on Liberia and in attracting vital political and financial

support from key regional and international institutions during the critical early stages of the transition period, thereby preventing backsliding into continued conflict. USAID interventions to promote a post conflict transition to a durable peace in the Great Lakes Region include technical assistance and training in democratic institution building, the protection of human rights and conflict mitigation and management. To begin implementation of post-conflict reconstruction and rehabilitation programs in southern Sudan, USAID has opened a Sudan Field Office, currently based in Nairobi, but which will be moved to southern Sudan when conditions permit. The Bureau reports that USAID is supporting the War Torn Societies Project which has established local mechanisms for dialogue and collective problem solving among conflicting parties in Somalia.

In FY 2004, the OIG issued three audit reports on democracy and governance activities as follows:

- *The Audit of USAID-Financed Democracy and Governance Activities in Egypt* (Audit Report No. 6-263-04-006-P dated July 12, 2004) determined that USAID/Egypt's democracy and governance activities had mixed success. In FY 2002, these activities did not meet four of five performance targets. In FY 2003, the activities performed better by meeting or exceeding three of six performance targets. To help ensure accurate reporting of results, the OIG recommended that the Mission (1) perform data quality assessments periodically, (2) require strategic objective team leaders to attest that they have verified annual results reported in performance management plans, and (3) revise its performance management plan to correct the errors identified in

⁹ *Embassy Construction: Achieving Concurrent Construction Would Help Reduce Costs and Meet Security Goals* (GAO-04-952 dated September 2004)

the report. The Mission agreed with the recommendations.

- The *Audit of USAID/Macedonia's Democracy and Local Governance Program* (Audit Report No. B-165-04-004-P dated March 25, 2004) determined that USAID/Macedonia monitored its democracy and local governance programs to ensure that activities achieved their intended results. However, the Mission's annual performance reporting did not accurately reflect USAID's impact in Macedonia because the Mission predominantly relied on public perception surveys that were influenced by events and circumstances unrelated to USAID's programs. The OIG recommended that the Mission review its performance indicators and select a new mix of indicators that better represents their program's performance. USAID officials agreed with the recommendation.
- During the *Audit of USAID/Guatemala's Justice Program* (Audit Report No. 1-520-04-011-P dated September 9, 2004) OIG auditors could not determine whether justice program activities were on schedule because the Mission did not establish performance baselines and intermediate targets to measure the progress of the activities. The report included two recommendations to address these deficiencies. USAID/Guatemala agreed with the findings and recommendations and has taken corrective action.

The OIG plans to conduct audits or reviews in FY 2005 at the Office of Transition Initiatives and in Sierra Leone, Iraq, and Peru which should contribute to improvements in USAID programs that advance the growth of democracy and good governance, including civil society, the rule of law, respect for human rights, and religious

freedom. In addition, the OIG plans to perform an overall audit of USAID's rule of law activities in FY 2008.

2.1.11. USAID reduces the HIV transmission rate and the effect of HIV/AIDS on developing countries. (Administration priority)

USAID participates in a U.S. Government-wide effort to address the effects of HIV/AIDS on developing countries. Audits planned for FY 2005 and FY 2006 will help the OIG make an overall assessment of progress toward achieving this standard for success.

In April 2002, USAID launched an operational plan entitled "Stepping up the War against AIDS." In June 2002 President Bush announced the International Mother and Child HIV Prevention Initiative, an initiative that USAID supported in FY 2003. In FY 2004, USAID responded to the President's Emergency Plan for AIDS Relief. The Emergency Plan calls for a joint U.S. Government effort to treat 2 million people infected with HIV, prevent 7 million HIV infections, and care for 10 million people infected and affected by HIV/AIDS, including orphans and vulnerable children.

USAID field missions are required to submit separate strategies for HIV/AIDS program implementation to help ensure that the most effective strategies are employed. By September 30, 2004, 46 strategies were reportedly reviewed by the Global Health Bureau. The Bureau reports that it has developed several databases to support HIV/AIDS programs:

- HIV/AIDS Surveillance Database (HIV prevalence data).
- HIV/AIDS Survey Indicators Database (knowledge, attitudes, and behavior statistics).
- Programmatic Database (program coverage data).

- Country Operation Plan & Reporting database (established at the request of the Office of the Global AIDS Coordinator in the State Department for use in the 15 Emergency Plan priority countries).

The OIG has met with USAID management, the Global AIDS Coordinator, and the Department of State OIG to discuss issues of accountability and oversight affecting HIV/AIDS activities. The OIG also convened a meeting with other OIGs whose agencies were expected to implement international HIV/AIDS activities. At this meeting, the OIGs agreed to coordinate both financial and performance audit coverage of the international HIV/AIDS activities falling under the President's Emergency Plan.

The USAID OIG plans to conduct a worldwide audit in 2005 to determine how USAID is participating in the Emergency Plan and its progress towards achieving its planned outputs. The OIG is also coordinating with USAID and other federal agencies to develop an OMB Circular A-133 Program Compliance Supplement which would encompass compliance requirements for the Government-wide HIV/AIDS programs under the Emergency Plan. This supplement will include program and audit guidance on HIV/AIDS programs, allowing non-federal auditors to more effectively evaluate how well U.S.-based nonprofit organizations are complying with laws, regulations and provisions applicable to grant agreements specifically associated with the Emergency Plan.

In FY 2006, the OIG plans to conduct audits of USAID's procurement of commodities under the Emergency Plan and its progress under the Emergency Plan.

2.1.12 USAID ensures that child survival and health funds are used in

accordance with federal laws and achieve desired results. (Administration priority)

Audits planned for FY 2005 and FY 2008 will help determine if the Agency has achieved this standard for success. All bureaus that provided information on this standard noted their compliance with Agency guidance on the use of Child Survival and Health Funds and noted program achievements in their areas.

According to the Global Health Bureau, standards for using Child Survival and Health funds according to federal laws are established in USAID's *Guidance on the Definition and Use of the Child Survival and Health Programs Fund and the Global HIV/AIDs Initiative Account*. All operating units are required to follow the Guidance, which requires that:

- Funds must be used for the specific Congressional directive and purpose for which they were appropriated;
- Activities must be consistent with Agency policy documents, Agency results framework and the Guidance;
- Funds must be programmed and coded to show what purpose they were used for.

Global Health Bureau noted that routine monitoring of program progress and achievements, including annual Portfolio Reviews of each strategic objective and the Global Health Annual Report help ensure programs achieve results.

Recent OIG audits of health programs in Benin and Guinea indicated that programs in both countries were achieving results. However, the audits had concerns about the level of health project monitoring in both countries. In response to the audit, both USAID/Benin and USAID/Guinea

implemented measures to strengthen monitoring by implementing partners.

The Bureau for Asia and the Near East stated that it is meeting this standard for success. The Bureau noted that it enforces the Congressional mandate for the use of Child Survival and Health funds by following the Agency's Guidance. The Bureau assures that missions in the region are aware of the Guidance and follow it, and stated that procedures for obtaining waivers whenever exceptions are requested are strictly adhered to. In general, the Bureau stated that the \$282 million in Child Survival and Health funds made available to it are achieving desired results in terms of reducing infant and child mortality, improving maternal health, addressing infectious diseases and helping vulnerable children.

The Bureau for Europe and Eurasia reported that it receives very little Child Survival and Health funding, but assures that all such funds are used in accordance with federal laws and achieve desired results. All missions receive and comply with the Agency's Guidance and are periodically reminded of it.

The Bureau for Latin America and Caribbean informed the OIG that in FY 2004 the Bureau's Development Assistance and Child Survival and Health programs received a final score of "moderately effective" by the Office of Management and Budget's Program Assessment and Rating Tool. The Bureau also noted that it adheres to the Agency Guidelines in programming and monitoring the use of Child Survival and Health funds.

OMB recently noted that the Latin American and Caribbean Bureau submitted improved performance measures for the Child Survival & Health account and the PART rating for this account was moved up from "results not demonstrated" to "moderately effective."

During FY 2005, the OIG plans to conduct (1) an audit of \$44 million in USAID-funded health activities in Iraq to determine if they are achieving intended results, (2) an audit of USAID/Afghanistan's School and Clinic Reconstruction Program to determine whether the reconstruction activities are on schedule to achieve planned outputs, and (3) an audit of USAID/Pakistan's \$116million health and population program development and reform activities. The OIG also plans to conduct an audit of USAID's Child Survival Activities in FY 2008.

2.1.13. USAID maintains appropriate controls over global development alliances to ensure accountability for USAID funds and achieve desired results. (Administration priority)

Audits planned for FY 2005 will contribute to an overall assessment of progress toward achieving this standard for success.

According to the Global Development Alliance Secretariat, the Secretariat does not directly manage Alliance activities and therefore could not directly address this standard. It does, however, attempt to work with the missions, bureaus and other management units towards achieving this standard for success and other strategic goals.

A multi-country audit of USAID's Global Development Alliance Program to be completed in FY 2005 will determine how well USAID has integrated development alliances into its programs and whether established alliances are achieving their intended results.

2.1.14. USAID basic education programs result in increased literacy. (Administration priority)

Four audits planned for FY 2005 and one for FY 2008 will help the OIG assess progress towards achieving this standard.

The Bureau for Economic Growth, Agriculture, and Trade believes that it has met this standard. The Bureau reported that its 83 basic education programs around the world are aimed at improving equitable access to schooling and improving the capacity of education which in turn lead to an increase in numeracy and literacy. The Bureau noted that its programs also provide literacy and life skills for out-of-school youth such as orphans and vulnerable children.

According to the Bureau for Europe and Eurasia, basic education programs are not common for the Bureau. However, where there are basic education projects, the Bureau reported that they successfully address low literacy rates in targeted populations.

The Latin American and Caribbean Bureau noted that primary school enrollments have grown to exceed 90 percent in all but two countries in the region over the last 30 years. Nevertheless, the Bureau continues to address basic literacy for the missions in the region through the Center for Excellence in Teacher Training's partnership with the Sesame Workshop. In addition, the Bureau noted it has basic education programs in eight countries and a regional program managed in Washington. Other education programs focus on higher education, training, workforce development, and teacher and administrator training.

The Bureau for Asia and the Near East stated that it is meeting this standard for success. According to the Bureau, funding and programming for basic education aimed at increasing literacy was substantially increased over the past year. The Bureau addresses literacy both within the formal school system and through non-formal education and training programs. The scope and nature of the Bureau's efforts to address literacy range considerably. For example, one component of the Bureau's basic

education program in Afghanistan is to promote increased literacy through an accelerated learning program that re-integrates out-of-school children into age appropriate formal schooling. Over 162,000 students (55 percent of them girls) are enrolled in this program.

In Iraq, the Bureau employs a dual strategy focusing on emergency actions to provide access and support the resumption of schools, while laying the foundation for critical reform. This strategy has resulted in the rehabilitation of 2,358 schools; the provision of textbooks, equipment and supplies to students, teachers and governorate offices; and the piloting of accelerated learning programs to bring school dropouts back into the formal education system. The Bureau is also employing more traditional literacy approaches in other country programs, using a combination of programs that provide access to basic education and teacher and administrator training, as well as literary and skills development for out of school youth. The Bureau noted that these programs have been successful in achieving higher literacy rates, as well as increased enrollments, retention, and improved quality of education.

The Africa Bureau reported that it has partially met this standard for success, noting that education programs in Africa do not use literacy as an indicator. The Bureau emphasized that its primary goals were to improve access to basic education, particularly for girls, and to improve the quality of education. Through the Presidential African Education Initiative, USAID provided in-service training programs to 50,000 teachers and provided initial training to 11,000 new teachers. According to the Bureau, hundreds of thousands of textbooks and readers were also provided, and 25,000 girls received scholarships.

Four audits planned for FY 2005 will assess different aspects of USAID education programs in Yemen, Iraq,

Afghanistan, and Mali and an overall audit of USAID's Basic Education Activities is planned for FY 2008.

2.1.15. USAID-sponsored agricultural business programs result in increased production and increased incomes. (Administration priority)

Two audits planned for FY 2005 will help the OIG assess progress towards achieving this standard.

Regarding the FY 2004 standard, the Bureau for Economic Growth, Agriculture, and Trade noted that its Office of Agriculture focuses on increasing agricultural production (crop and livestock sectors) as well as on food, nutrition, and agriculture policy; the development of agribusiness and agricultural trade; and agricultural education, training, and outreach. Through mechanisms such as the Partnership for Food Industry Development, it provides support to agribusiness development. This program provides assistance to partner country exporters in the fruit and vegetable, meat and seafood, and natural products sub-sectors. In 2004, the fruit and vegetable sub-sectors of the program targeted the establishment of 15 new long-term business deals or contracts in the Latin America region alone with a target of \$15 million in export sales. Towards this end, the program facilitated assistance to address sanitary issues currently impeding exports. The program also provided market intelligence diagnostics of food industry demand for different product categories in several countries in Central America. In addition to the Partnership for Food Industry Development program, the Bureau has also established a mechanism to assist USAID's overseas missions in addressing sanitary issues in agricultural trade and agribusiness development.

The Africa Bureau reported that it has partially met this standard for success, citing agricultural programs designed

to increase productivity through increased use of modern technologies, information technologies, an innovative credit mechanism, small-scale infrastructure, and improved opportunities for trade. The 5-year Presidential Initiative to End Hunger in Africa was launched in 2002 and is the flagship of USAID efforts in sub-Saharan Africa. The Initiative, which focuses on using market forces to increase small-scale farmer productivity, is being implemented in nine missions. Despite declines in agricultural productivity throughout sub-Saharan Africa in recent years (due in great part to factors outside the control of USAID, such as desertification, natural disasters, conflict, and drought), the Bureau noted that there is evidence to indicate that agricultural productivity has increased relatively more in regions that have received USAID assistance than in regions that have not received such assistance.

According to the Bureau for Latin America and the Caribbean, the Bureau incorporates agricultural and agribusiness concerns into programs that work to improve policies, legislation, regulations, and practices that define the business environment in the region. The same holds true for programs addressing the small and medium enterprise sector. Overall, eleven country and three regional programs aim to increase agricultural productivity and the incomes of small producers.

The Bureau for Europe and Eurasia indicated that the Bureau has met this standard for success, pointing out that its agriculture programs help promote competitiveness and address the need for improving private sector agriculture production, financing structures, and employment generation by design. The Bureau cited examples of programs in Moldova, Croatia, and Kosovo that resulted in farmers receiving higher prices and significantly increasing their production with USAID assistance.

The Bureau for Asia and the Near East also reported to the OIG that this standard was achieved in FY 2004. Major new agricultural marketing programs have emerged or were strengthened during FY 2004 in Afghanistan, Bangladesh, East Timor, Egypt, India, Iraq, Lebanon, Pakistan, Philippines, Mongolia, Morocco, Nepal, West Bank Gaza and Yemen. The Bureau is also aligning programs of support to missions along the lines of the USAID agricultural strategy entitled *Linking Producers to Markets*.

In FY 2005, the OIG plans to conduct audits of (1) USAID/Afghanistan's \$130.8 million Rebuilding Agricultural Markets Program to determine if activities are on schedule to achieve planned outputs and (2) the USAID Regional Quality Coffee Program in Latin America to determine if competitiveness and sustainability of quality coffee exports in targeted countries are on schedule.

2.1.16. USAID assists disaster-prone nations to prepare for emergencies. (Administration priority)

An audit of USAID's emergency preparedness efforts planned for FY 2008 will help assess progress towards achieving this standard for success.

The Bureau for Democracy, Conflict, and Humanitarian Assistance assists disaster-prone nations to prepare for emergencies. According to the Bureau, it provides food aid-supported activities as a means to reduce long term vulnerability to emergencies by enhancing community and household resilience to shocks, helping people build more durable and diverse livelihood bases, and enhancing capabilities through health, nutrition, and education. In addition, the Bureau has designed the Famine Early Warning System Information Network to help decision-makers address incipient emergency food security problems and build a network of

partners in early warning and food security assessment.

The Bureau also works to support disaster prevention and rehabilitative activities that reduce vulnerability to recurring emergency events. For example, the Bureau supports infrastructure construction and rehabilitation (dams, canals, and water wells) to reduce the impact of floods, droughts, earthquakes, and other disasters. It also supports disaster preparedness and mitigation training in Latin America, the South Pacific, Asia, and Africa.

The Bureau for Latin America and the Caribbean reported that it initiated a Famine Early Warning System Information Network for Haiti. According to the Bureau, ongoing natural disaster reconstruction programs in the region incorporate mitigation efforts to help prepare for and lessen the impact of future natural disaster events.

According to the Africa Bureau, this standard was partially achieved in FY 2004. The Bureau has programs in several disaster-prone countries that help those countries prepare for emergencies. Its Famine Early Warning Systems Information Network strengthens regional and national early warning and food security organizations in 20 countries. The Bureau also noted that environmental programs in a number of countries are encouraging farmers to use environmentally friendly techniques to help reduce the environmental degradation that contributes to the severity of natural disasters.

In FY 2008, the OIG plans an audit of USAID's emergency preparedness efforts.

2.1.17. USAID provides rapid, appropriate responses to requests for disaster assistance. (Administration priority)

An audit to be performed in FY 2009 will help the OIG assess progress toward achieving this standard.

The Bureau for Democracy, Conflict, and Humanitarian Assistance reported that it responded to 70 declared disasters in FY 2004, providing assistance valued at more than \$340 million. Situations included conflict, drought, flooding, hurricanes, insect infestations, blizzards, accidents, and other disasters. In response to crises in the Sudan and Eastern Chad, the Office of U.S. Foreign Disaster Assistance deployed Disaster Assistance Response Teams to the region. The Food for Peace Office also responded to multiple emergencies, including the crisis in Darfur, Sudan, food insecurity in Southern Africa, and drought in Ethiopia. In addition, the Bureau is working with missions to adopt "crisis modifiers" into their strategic plans. In crisis-prone countries or countries facing long-standing emergencies, missions can include a crisis modifier clause in the strategic plan which would allow for a quick and streamlined redirection of resources to address a crisis situation when conditions warrant it.

The OIG conducted several audits of disaster assistance programs during FY 2004:

- *The Audit of the Post-Project Condition of Roads and Bridges Constructed in Honduras Under the Emergency Reconstruction of Roads and Bridges Activity* (Audit Report No. 1-522-04-006-P, dated March 3, 2004) found that USAID/Honduras-financed roads and bridges repaired or reconstructed under the Emergency Reconstruction of Roads and Bridges Activity were in adequate condition one year after the project completion date.
- *The Audit of USAID/EI Salvador's Reconstruction of Schools, Healthcare Facilities, and Other*

Infrastructure Projects Under the Earthquake Reconstruction Program (Audit Report No. 1-519-04-009-P, dated August 10, 2004) found that the reconstruction activities of schools, healthcare facilities, and other infrastructure projects under the program were on schedule.

- *The Audit of USAID/Madagascar's Performance Monitoring of Road and Rail Repair and Reconstruction for Southern Africa Flood Relief Supplemental Appropriations* (Audit Report No. 4-687-04-006-P, dated April 15, 2004) found that the Mission monitored performance in accordance with USAID policies and procedures.
- *The Follow-up Audit of USAID/EI Salvador's Housing Reconstruction Project Under the Earthquake Program* (Audit Report No. 1-519-04-005-P, dated February 17, 2004) found that seven of eight implementing partners were on schedule to complete their planned reconstruction efforts on time. The Mission continued to work with the eighth implementer to expedite its construction efforts.

The OIG plans to conduct an audit in FY 2009 on USAID's Emergency Response Efforts.

OIG Strategic Objective 2.2: Provide timely, high-quality services that contribute to improvements in USAID's processes for awarding and administering contracts and grants.

Standards for Success for USAID:

2.2.1. Cognizant Technical Officers (CTOs) are effective participants in the procurement process (Office of Federal Procurement Policy Best Practices and USAID Performance Goal 3.2.1)

USAID has not yet achieved this standard for success.

An important member of any USAID acquisition or assistance team, the CTO is responsible for ensuring, through liaison with the contractor or grant recipient, that the terms and conditions of the acquisition and assistance instrument are met.

The Bureau for Management informed us that, in FY 2004, USAID published requirements for designating CTOs. These requirements include specific instructions for contract administration duties and responsibilities that reflect current Agency and U.S. Government policies and procedures. This publication was the result of a collaborative effort with the pillar bureaus to establish accountability for the management of efforts under contracts and grants; the requirements for federal government employees to be accountable for inspection and acceptance of Government goods and services furnished under contracts; and the need to provide a baseline of training for all staff members accountable for Government resources and programs accomplished through contracts and grants. The Bureau for Management is still working to establish training requirements and a database of CTOs.

On March 31, 2004, the OIG issued a capping report on its *Audit of USAID's Training, Use, and Accountability of Cognizant Technical Officers* (Audit Report No. 9-000-04-003-P). This report, which summarized the results of seven audits of USAID missions and Washington bureaus, showed that, in general, USAID had provided adequate guidance but had not provided CTOs enough training to acquire core competencies or to understand and perform the full range of tasks assigned to them. In addition, USAID did not hold all its CTOs accountable for the performance of the CTO tasks assigned to them and, in some cases, did not evaluate CTOs at

all. The OIG recommended that USAID:

- Maintain updated master lists of its CTOs indicating whether or not each CTO is certified.
- Develop training plans for its uncertified CTOs and schedule them to attend the training required for certification.
- Incorporate CTO duties and responsibilities into the position descriptions, work objectives, and statements of work of each individual designated to serve as a CTO.
- Evaluate each individual designated to serve as a CTO based on the performance of his or her CTO duties and responsibilities.
- Require supervisors to solicit comments on the performance of CTO tasks from contracting officers and other pertinent sources, as part of each CTO's annual performance evaluation.

USAID agreed with the recommendations, and management decisions have been reached.

During FY 2005, the OIG plans to conduct an audit of contract administration activities performed by CTOs assigned to USAID/Nicaragua.

2.2.2. USAID's management of service contracts improves USAID operations and programs. (Office of Federal Procurement Policy Letter 93-1)

An audit planned for FY 2007 will provide information that will help the OIG assess overall progress toward achieving this standard. As indicated below, USAID has taken several actions to help meet the standard.

USAID has developed policy guidance on inherently governmental functions

to supplement the guidance issued by the Office of Federal Procurement Policy. This policy guidance is designed to help ensure that contractors are not performing inherently governmental functions and that final actions by USAID reflects the informed, independent judgment of USAID officials.

USAID has a number of mechanisms in place to promote full and open competition. The Deputy Director for Policy, Evaluation, and Support in the Office of Acquisition and Assistance (OAA) serves as USAID's Competition Advocate responsible for review and approval of all justifications for other than full and open competition. OAA's Evaluation Division also conducts regular reviews of contract files at missions throughout the world to ensure that justifications for other than full and open competition are prepared and submitted to the Competition Advocate as required. In addition, the USAID Acquisition Regulations and the ADS require justifications for noncompetitive award of a wide variety of instruments employed by USAID. These justifications are subject to review and approval by the Contracting Officer, Deputy Assistant Administrator, Competition Advocate, or other appropriate party.

USAID stated that OAA continuously explores options for obtaining goods and services in a cost-effective manner. In January 2002, OAA issued guidance on the use of franchise funds, which are self-supporting business-like entities within the federal government that provide services to other agencies on a reimbursable basis. OAA implemented a pilot program to experiment with GovWorks, a franchise fund that provides acquisition services. The pilot was intended to explore both cost and time efficiency and effectiveness of this service in fulfilling USAID requirements. An evaluation is currently underway to explore whether actual effectiveness and efficiency of

this program merits continued use of this service. USAID believes that it has achieved cost efficiencies through the expanded use of indefinite quantity contracts and the use of General Service Administration (GSA) schedules to the maximum extent practicable.

To help ensure that a sufficient number of trained and experienced officials are available to perform or oversee the contract administration function, USAID has implemented a CTO training and certification program, which is available to all Agency technical staff who may serve in this capacity. Also available are training courses for senior managers and supervisors of CTOs to ensure that they understand CTO responsibilities. Contracting Officers also provide on-the-job training to CTOs. However, as indicated under the previous standard for success, USAID still needs to take several actions to make sure that CTOs effectively perform their responsibilities.

In FY 2007, the OIG plans to audit USAID's service contracts to determine whether they accomplish their intended purposes, are cost-effective, and preclude contractors from performing inherently governmental functions.

2.2.3. USAID follows procedures for using performance-based contracting where applicable to achieve or exceed OMB targeted goals. (Office of Federal Procurement Policy Letter 92-1 and USAID Performance Goal 3.1.2)

USAID has not yet met this standard. The Agency reports that it has awarded a contract for an assessment of performance-based service contracts as well as the design and implementation of a pilot program for performance-based service contracts. Upon completion of the assessment and the pilot program, USAID plans to publish guidance based on best practices and the Office of Federal

Procurement Policy's "Seven Steps to Performance Based Contracting Guide."

The OIG plans to audit USAID's solicitation and award process during FY 2008. This audit is expected to determine if acquisition teams (1) translate requirements into essential outputs, (2) explain outputs in precise terms, and (3) implement best practices for acquisition actions.

2.2.4. USAID ensures consistent application of acquisition and assistance procurement policies and procedures. (Office of Federal Procurement Policy)

An audit planned for FY 2008 will provide information that will help the OIG assess overall progress toward achieving this standard.

USAID has characterized its efforts in this area as a work in progress. To help meet this standard, USAID has established a Contract Review Board to evaluate all worldwide acquisition actions in excess of \$10 million. In addition, OAA performs procurement system reviews at USAID posts throughout the world and makes recommendations to improve operations. However, USAID believes that OAA lacks sufficient staff and funding to perform procurement system reviews on an optimal cycle.

USAID stated that it initiated the implementation phase of the Procurement System Improvement Project in FY 2004. When fully implemented, this system will enable contracts and grants in all USAID offices worldwide to be awarded using the same terms and conditions. Finally, the work of contracting officers is reviewed to help ensure consistent application of contracting and assistance procedures and regulations.

In FY 2004, the OIG pursued three audit lines of effort that bear on this standard for success. First, the OIG

has audited the award process for 12 Iraq reconstruction contracts with a value of \$3.4 billion, concluding that, with isolated exceptions, USAID followed Federal Acquisition Regulation requirements. Nevertheless, the OIG recommended that USAID (1) develop and maintain a procurement process checklist to ensure that important procurement steps and procedures specified in the regulations are not overlooked and (2) develop a standardized illustrative budget to be used in requests for proposals and require the use of this standardized format in cost proposals.¹⁰ USAID concurred with both these recommendations.

In another series of audits, the OIG determined that USAID missions had awarded U.S. personal services contracts in accordance with selected USAID policies and procedures, again with isolated exceptions. However, the OIG also concluded that USAID's policies on U.S. personal services contract extensions and renewals needed additional clarification to ensure consistency of application at all USAID missions. The OIG recommended that OAA issue guidance requiring that (1) personal services contracts be limited to five years, including renewals and extensions, and (2) personal services contracts be re-competed if major changes are made to the associated position description.¹¹

Finally, the OIG recently reported that USAID had incorrectly excluded mission task orders from its small and disadvantaged business utilization

¹⁰ *Capping Report on the Audit of USAID's Compliance with Federal Regulations in Awarding the Iraq Phase I Contracts* (Audit Report No. A-000-04-003-P, dated May 19, 2004)

¹¹ *Audit of USAID Missions' Management of U.S. Personal Services Contractors* (Audit Report No. 9-000-04-006-P, dated September 16, 2004)

program.¹² (See standard for success 2.2.5 below.)

During FY 2008, the OIG plans to perform an audit of USAID's solicitation and award process.

2.2.5. USAID ensures increased competitiveness and access to procurement opportunities for U.S. small businesses. (Office of Federal Procurement Policy)

A 2004 OIG audit described some weaknesses in the data that USAID uses to manage its small and disadvantaged business utilization program. On the other hand, USAID reports that it is making progress in making information on small businesses more readily available to USAID officials and prime contractors.

USAID's Office of Small and Disadvantaged Business Utilization has automated its database registration function for small business vendors. The Small Business Resource Database reportedly contains over 1,300 registrants seeking to do business with USAID. This data is available on the desktops of USAID contract, technical, and program officers worldwide. USAID has also made this data available to USAID's prime contractors.

A recent OIG audit concluded that USAID's ability to meet the goals established by the Small Business Administration had been hampered because USAID had mistakenly excluded mission task orders from its small and disadvantaged business program. The audit also determined that USAID's Office of Acquisition and Assistance's database, as well as the Federal Procurement Data Center's database, were not accurate and complete, thereby materially understating the amount of task orders awarded by missions. The report

¹² *Audit of USAID's Small and Disadvantaged Business Utilization* (Audit Report No. 9-000-04-004-P, dated September 3, 2004)

included recommendations to (1) update USAID's Small Business Administration-related guidance, (2) coordinate reporting with the Federal Procurement Data Center, (3) improve data verification procedures, and (4) reconstruct missing contract files.¹³ Management has concurred with Recommendation Nos. 2 and 4, generally concurred with Recommendation No. 3, and is awaiting additional information before deciding what action to take on Recommendation No. 1.

2.2.6. USAID adopts practices that enable it to manage its procurement workload efficiently. (USAID Performance Goal 3.1.1)

USAID has not yet met this standard for success. It characterized its efforts on this standard as a work in progress but believes that it has made major achievements in FY 2004, as discussed below.

USAID stated that OAA has taken the following steps to manage its procurement workload:

- Weekly workload reports are distributed to all managers, allowing OAA to shift resources as needed.
- Resources have been reallocated from Policy and Evaluations to Operations.
- Overtime was authorized to handle workload at the end of the fiscal year.
- Foreign Service National employees were brought in from overseas missions to assist with the workload at the end of the fiscal year.
- Iraq reconstruction contracts were awarded in Washington but

transferred to the field for administration.

USAID further stated that it initiated the implementation phase of the Procurement System Improvement Project in FY 2004. Management information about USAID's business operations will be constantly updated in the new system and available over web-based communication portals. Managers at headquarters and in the field will have more control over reporting and data integrity. The acquisition and assistance procurement system will allow acquisition and assistance activities to be fully integrated with the financial management system and will allow requestors to make a single data entry to accomplish both acquisition and assistance and associated financial management actions.

As discussed under standard for success 2.2.1, the OIG has recommended that USAID take several actions to ensure that CTOs have the requisite knowledge and skills to perform their CTO actions and ensure that CTOs are evaluated for their performance of CTO duties. Implementing these actions will, in our view, help mitigate demands on contracting officers and contract specialists and help USAID meet this standard.

2.2.7. USAID's internal evaluations of its contracting systems are sufficient and complete for ensuring accurate reporting of system compliance and integrity.

An audit of USAID's procurement evaluation program, planned for FY 2006, will help the OIG assess overall progress toward achieving this standard for success.

Although OAA performs procurement system reviews in Washington and overseas, USAID believes that OAA lacks sufficient resources to perform these reviews on an optimal cycle. During FY 2005, USAID intends to

seek additional staff and to cross-train operational staff to perform procurement system reviews. USAID will also explore the possibility of targeting certain high-risk instrument types for procurement system reviews, such as time and materials contracts and indefinite quantity contracts.

2.2.8. USAID identifies and implements applications for on-line procurement. (Office of Federal Procurement Policy, OMB Scorecard, and USAID Performance Goal 3.1.3)

An audit planned for FY 2008 will help the OIG assess progress toward achieving this standard. As indicated below, USAID believes that it has made solid gains in using on-line procurement tools.

USAID stated that it is actively participating in a number of E-Government initiatives. It has adopted FedBizOpps.gov as the single point of entry for all of its federal procurement opportunities over \$25,000. USAID officials believe that utilization of Fedgrants.gov and Grants.gov allows organizations to electronically find and apply for USAID grant opportunities. Additionally, USAID utilizes the Past Performance Information Retrieval System (PPIRS) to obtain information on contractors' past performance. The Agency also plans to use an on-line dissemination solution to safeguard sensitive but unclassified acquisition information.

In FY 2008, the OIG will audit USAID's solicitation and award processes. Tentatively, this audit will determine if USAID is maximizing electronic means to receive and disseminate procurement information.

2.2.9. USAID ensures that contractors and grantees meet applicable integrity standards.

USAID has established controls to help ensure that contractors and grantees meet applicable integrity standards.

¹³ *Audit of USAID's Small and Disadvantaged Business Utilization Practices* (Audit Report No. 9-000-04-004-P, dated September 3, 2004)

All USAID employees involved in the contracting process are required to undergo annual ethics training which addresses conflicts of interest from a legal perspective. Members of technical evaluation committees are required to sign conflict of interest certifications before participating in an evaluation. Contracting officers are also required to file personal financial disclosures, which are screened by the Ethics Office to guard against conflicts of interest.

In addition, all contracts provide conflict of interest provisions for contractors, and a summary of corporate experience is a standard requirement included in requests for proposals. These summaries are reviewed by the Contracting Officer, technical panel and often the Contract Review Board to guard against potential conflicts.

Finally, in accordance with U.S. *Government Auditing Standards*, the OIG includes work steps in all audit programs to help identify potential fraud. The OIG's efforts related to integrity are discussed more fully under the OIG's strategic objective number 5, "Preserve and protect USAID program and employee integrity."

OIG Strategic Objective 2.3: Provide timely, high-quality services that contribute to better management of USAID activities that address significant, often unplanned, conditions or engender intense congressional interest.

Standard for Success for USAID:

2.3.1. USAID achieves effective use of, and accountability for, resources in implementing humanitarian and relief programs as well as other emergency and unforeseen activities.

USAID achieves efficient and economical delivery of desired results

in executing significant unforeseen activities.

(Implicit in OMB October 30, 2001 Memorandum and President's Management Agenda)

USAID has made some progress in meeting this standard for success. Audit work planned for FY 2005 will better enable the OIG to assess USAID's progress.

In FY 2004, the Bureau for Democracy, Conflict, and Humanitarian Assistance reportedly responded to 70 declared disasters, providing assistance valued at more than \$340 million. The Bureau prepositions relief commodities at warehouses around the world to minimize delivery transit time. The Bureau is often faced with a wide range of unplanned complex emergencies where food aid is part of the U.S. Government response. Recent military conflicts in Afghanistan and Iraq required immediate response with food aid as part of U.S. foreign policy. The situation in Darfur, Sudan, has also necessitated a rapid response in order to mitigate severe food insecurity. In addition, drought situations in the Horn of Africa and Southern Africa have necessitated rapid response with food aid.

USAID and the OIG are providing significant resources for reconstruction efforts in Iraq. As of September 30, 2004, USAID had awarded 20 reconstruction contracts totaling \$3.9 billion. The OIG has audited the award process for 12 of these contracts with a value of \$3.4 billion, concluding that USAID followed FAR requirements with isolated exceptions. However, the OIG recommended that USAID (1) develop and maintain a procurement process checklist to ensure that important procurement steps and procedures specified in the regulations are not overlooked and (2) develop a standardized illustrative budget to be used in requests for proposals and require the use of this

standardized format in cost proposals.¹⁴ USAID concurred with both these recommendations.

In addition to the reconstruction efforts in Iraq, USAID and the OIG are supporting development efforts in Afghanistan. For example, the OIG is providing on-going audit coverage of the \$665 million Rehabilitation of Economic Facilities and Services program. The purpose of the program is to promote economic recovery and political stability through infrastructure repair projects, including roads, schools, clinics, dams and irrigation systems. The single largest activity under the program is the reconstruction of a 1,207-kilometer highway running from Kabul through Kandahar to Herat. The OIG determined that, although USAID/Afghanistan generally monitored whether reconstruction of the highway was on schedule, it could not fully monitor the quality of the work, in part because of security and staffing difficulties.

In FY 2005, the OIG plans to continue its work in Iraq and Afghanistan by conducting audits of USAID/Iraq's strengthening of health system activities, water and sanitation rehabilitation projects, electrical generation, and education activities. Work in Afghanistan will include an audit of USAID/Afghanistan's school and clinic reconstruction program.

The OIG conducted another audit in FY 2004 related to infrastructure rehabilitation in Madagascar following a series of tropical cyclones there.¹⁵ The OIG determined that USAID/Madagascar monitored

¹⁴ *Capping Report on the Audit of USAID's Compliance with Federal Regulations in Awarding the Iraq Phase I Contracts* (Audit Report No. A-000-04-003-P, dated May 19, 2004)

¹⁵ *Audit of USAID/Madagascar's Performance Monitoring of Road and Rail Repair and Reconstruction for the Southern Africa Flood Relief Supplemental Appropriations* (Audit Report No. 4-687-04-006-P, dated April 15, 2004)

performance related to farm-to-market road repair and national rail line repair and rehabilitation in accordance with USAID policies and procedures and that the Mission accomplished one of the key priorities of the emergency supplemental funding.

A follow-up audit on USAID/EI Salvador's earthquake housing reconstruction activities determined that USAID/EI Salvador set timeliness standards for those activities in response to a previous OIG audit recommendation. However, one of eight housing reconstruction implementers still needed to significantly increase construction output to meet its deadline.¹⁶

OIG STRATEGIC GOAL 3

Promote improvements in the way USAID manages its human capital.

OIG Strategic Objective 3.1: Provide timely, high quality services that contribute to the acquisition and development of a workforce whose number, skills, and deployment meet Agency needs; strategies for succession planning and leadership continuity; and strategies that integrate workforce planning into the Agency's budget and strategic plans.

Standards for Success for USAID:

3.1.1. No skill-gap deficiencies exist in mission-critical positions. (OMB Management Initiative, USAID Performance Goal 2.1, and OPM Scorecard/Strategic Competency Goal)

At this point, it is impractical to assess progress toward achieving this standard because USAID has not yet completed a workforce analysis that

compares needed competencies with the skills and competencies available in the Agency's workforce. However, the Agency has begun to address this standard for success.

According to USAID's Management Bureau, its Office of Human Resources has launched a comprehensive workforce analysis. This analysis is designed to (1) identify mission-critical occupations needed to accomplish USAID work now and in the next three to five years, (2) identify the core competencies and skills required by those mission-critical occupations, and (3) devise recruitment, retention and training strategies to narrow or close any critical competency gaps.

Additionally, the Bureau reports that it began several hiring initiatives, as well as studies and strategies to address this standard for success. These included:

- The Office of Human Resources (M/HR) hired 85 limited-term Foreign Service Officers in the first year of a three-year recruitment program authorized by Congress.
- M/HR recruited three new classes of International Development Interns and New Entry Professionals for a total of 75 new career candidate Foreign Service Officers.
- USAID selected approximately 40 Presidential Management Fellows in FY 2004.
- USAID improved its recruitment timeliness in FY 2004, decreasing the average number of workdays from announcement to offer by 21 percent – exceeding the OPM standard for recruitment.
- M/HR created a surge-capacity roster supporting mission efforts to address critical, short-term staffing requirements.

- M/HR designed and implemented a study to incorporate affirmative employment goals into recruitment strategies.
- M/HR completed the agency business model review and recommended consolidating administrative functions in regional service centers to rationalize staffing and streamline overseas operations.
- M/HR developed and implemented a succession planning strategy to address critical skills gaps.
- M/HR developed and initiated a headquarters to field alignment study to determine the numbers of USAID/Washington staff required to support the Agency's field activities.

The September 30, 2004 OMB Scorecard rated USAID's progress in implementing the human capital initiative in the President's Management Agenda item as green (the highest rating), noting that had that USAID developed a human capital accountability system using metrics to evaluate performance. Further, USAID developed draft succession strategies through the development readiness initiative and the workforce planning initiative to address skill gaps. However, OMB still rated USAID's overall status in the area of human capital as red (the lowest rating). The Scorecard noted that USAID still needs to complete an initial workforce and skill gap analysis and implement Agency strategies to address under representation of needed skills.

During FY 2004, the OIG issued a report on the *Audit of USAID Missions' Management of U.S. Personal Services Contractors* (Audit Report No. 9-000-04-006-P, dated September 16, 2004). The report, which summarized the audits of eight USAID missions, determined that the

¹⁶ *Follow-Up Audit of USAID/San Salvador Housing Project Under the Earthquake Reconstruction Program* (Audit Report No. 1-519-04-005-P, dated February 17, 2004)

missions had developed their USPSC staffing requirements in accordance with USAID policies and procedures.

3.1.2. Human capital strategy is consistent with OPM's "Human Capital Scorecard." (OMB Management Initiative and OPM Scorecard)

USAID has met this standard.

In August 2004, USAID issued a Human Capital Strategic Plan for fiscal years 2004 - 2008, which is consistent with the Human Capital Assessment and Accountability Framework.¹⁷ The Framework incorporates six human capital standards for success, which are:

- Strategic alignment
- Workforce planning and deployment
- Leadership and knowledge management
- Results-oriented performance culture
- Talent
- Accountability

The OIG plans to audit USAID's human capital strategy during FY 2006.

3.1.3. Human capital strategy is integrated into the budget and strategic plans. (OMB Management Initiative and OPM Scorecard/Strategic Alignment)

An audit planned for FY 2007 will help the OIG assess the integration of the human capital strategy and the budget and strategic plans.

In August 2004, USAID issued a comprehensive Human Capital Strategic Plan for fiscal years 2004 - 2008. USAID asserts that, by providing the Agency with the human and intellectual capital required to meet USAID's expanded national security mandates, the Human Capital Strategic Plan directly supports the mission stated in the USAID-State Department Strategic Plan.

The OIG plans to audit USAID's incorporation of human capital strategy into the budget and planning processes in FY 2007.

3.1.4. USAID strategically uses existing personnel flexibilities, tools, and technology. (OMB Management Initiative and OPM Scorecard)

Using existing personnel flexibilities, tools, and technology, USAID is working to improve the way in which it addresses this standard.

USAID's Management Bureau stated it aggressively recruited in the Foreign Service cadre to fill openings in Iraq and Afghanistan, including outreach from the Administrator to bidders and development of an informational website about opportunities and working conditions in Iraq. The Agency also employed available flexibilities, including the recall of Foreign Service retirees, expanded temporary duty options for Foreign Service and Civil Service personnel and Third-County Nationals, and relaxation of normal Foreign Service assignment protocols to encourage assignments to these posts. Three Foreign Service Officers were appointed to Afghanistan under limited-term authority; this option continues to be explored for Iraq.

Nevertheless, the Agency's Human Capital Strategic Plan concludes that USAID's recruitment, deployment, and use of its workforce are cumbersome and that the Agency needs more flexible personal management tools to

ensure that available staff are aligned with its strategic priorities. To address these challenges, the Human Capital Strategic Plan contains the strategic objective, "Establish a More Flexible Workforce."

The Human Capital Strategic Plan asserts that the objective will be achieved by attaining three intermediate results and one contributing intermediate result. They are:

- Surge capacity established.
- Workforce flexibility enabled by Agency policies.
- Use of statutory and regulatory authorities maximized.
- Sufficient operating expense resources allocated (contributing intermediate result).

The OIG plans to audit USAID's use of existing personnel flexibilities in FY 2009.

3.1.5 USAID implements effective succession plans. (OMB-Management Initiative and OPM Scorecard/Leadership Goal)

USAID has not yet met this standard.

The Agency stated that its succession strategy consists of three complementary initiatives: the development readiness initiative, the workforce planning initiative, and knowledge for development.

The development readiness initiative envisions hiring 250 additional direct-hire staff (above attrition replacement) by the end of FY 2006. Hiring these additional staff will aid succession planning by:

- Permitting the establishment of positions for junior Foreign Service officers to serve overseas in training under seasoned Foreign Service officers.

¹⁷ OPM has replaced its Human Capital Scorecard with the Human Capital Assessment and Accountability Framework that was jointly developed by OPM, OMB, and GAO.

- Allowing a training float for officers who take language, technical, and leadership training between assignments.
- Creating positions for interns to understudy senior civil servants who are most likely to retire, thus averting a loss of knowledge when these senior employees do retire.
- Broadening experience by detailing officers to other U.S. foreign affairs agencies and international organizations.

The additional staff would also provide a surge capability to deal with new workload requirements. USAID reports that, during FY 2004, it hired 50 additional staff under the development readiness initiative.

The workforce planning initiative involves comparing the competencies and skills needed to accomplish USAID's mission with those available in USAID's current workforce to identify skill gaps that need to be filled through recruitment. An initial workforce analysis is expected to be completed during FY 2005.

The knowledge for development initiative is designed to mitigate the loss of knowledge as experienced employees leave the workforce. It aims to encourage information sharing across organizational boundaries and enhance USAID's ability to manage large volumes of information. A knowledge for development strategy has been drafted but firm timeframes for implementing its initiatives are not available.

In addition to the three initiatives discussed above, USAID is developing and implementing a comprehensive suite of leadership development training programs. In FY 2004, more than 250 employees received training under one of these programs.

The OIG plans an audit of USAID's succession planning for top leadership and management positions in FY 2009.

3.1.6 USAID sustains a high-performing workforce that is continually improving in productivity. (OMB-Management Initiative and OPM Scorecard/Leadership and Performance Culture Goals)

USAID has not yet met this standard for success.

USAID's Human Capital Strategic Plan for FY 2004 - FY 2008, approved on August 26, 2004, makes establishing a high-performing workforce its first strategic objective. The plan notes that, because of past and continuing high levels of attrition of senior and experienced USAID staff, many employees are moving into mid-level and senior manager positions without sufficient experience, training, or follow-on coaching and mentoring to provide them with a solid chance for success. As a result, some staff in new leadership roles are unprepared to perform at the levels to which they are assigned. The strategic plan identifies several lines of effort to address this situation, all centered around:

- Supporting new managers.
- Providing appropriate coaching, mentoring, and training to the workforce as a whole.
- Improving the transparency of the assignments process.
- Reforming USAID's performance culture.
- Realigning incentives and taking other steps to retain staff and develop a new generation of leaders.

USAID has stated that the incremental cost of implementing the strategic plan will be substantial. Without adequate

operational resources, the plan will not be viable.

USAID has reported that efforts in FY 2004 focused on the performance appraisal systems for Foreign Service and Civil Service employees. The Agency negotiated changes to the performance appraisal process, changes which place emphasis on communication between rating officials and employees and on more clearly defined expectations. USAID has simplified its appraisal forms, substantially reducing narrative requirements. M/HR developed and delivered training programs for staff and supervisors describing performance management as a continuous process throughout the rating cycle.

The OIG plans to review USAID's programs for improving employee performance during FY 2006.

3.1.7. Human capital strategy complies with standards for internal accountability systems to ensure effective merit-based human resources management. (OMB Management Initiative and Executive Order 13197)

USAID has met this standard.

USAID reported that during FY 2004, an Agency working group developed a Performance Management Plan (PMP) for the Human Capital Strategic Plan. They added that the PMP, which establishes indicators, baselines, and targets, will be used to track the achievement of USAID's Human Capital Strategy priorities and goals.

OMB's September 30, 2004 Scorecard noted that USAID has developed a human capital accountability system. The OIG plans to perform an audit of USAID's human capital strategy for compliance with standards for internal accountability systems in FY 2010.

3.1.8. USAID employees maintain high standards of honesty and integrity. (OPM Scorecard/Leadership)

USAID has met this standard for success.

USAID requires annual ethics training for (1) all new direct-hire employees and (2) all employees who are required to fill out the "Confidential Financial Disclosure Report" (Office of Government Ethics Form 450). In addition, employees participating in procurement activities are required to sign confidentiality agreements. Finally, according to the Bureau for Management, USAID has designed its leadership and supervisory training courses to reinforce the values of honesty and integrity.

In accordance with U.S. *Government Auditing Standards*, the OIG includes work steps in all audit programs to identify potential fraud. In addition, the OIG provides fraud awareness briefings to USAID employees and personal services contractors. In FY 2004, only 37 (0.5 percent) of USAID's 8,117 employees were the subject of an investigation, and only eight of those investigations resulted in an adverse action against the employees involved. These statistics reinforce the conclusion that USAID employees maintain high standards of honesty and integrity. The OIG's efforts related to integrity are discussed more fully under the OIG's strategic objective number 5, "Preserve and protect USAID program and employee integrity."

OIG STRATEGIC GOAL 4

Promote improvements in USAID's accounting for and reporting on financial and program activities and protecting information.

OIG Strategic Objective 4.1: Provide timely, high-quality services that assist USAID in improving its financial systems that contribute to the preparation of

reliable and useful information that managers can use to manage the Agency.

Standards for Success for USAID:

4.1.1. USAID has financial management systems that substantially meet federal financial management system requirements and applicable accounting standards. This includes a financial management system that does the following:

- 1. Complies with the Joint Financial Management Improvement Program.*
- 2. Processes transactions in accordance with the Standard General Ledger.*
- 3. Complies with federal accounting standards.*

(Government Management Reform Act of 1994 and OMB Scorecard)

Although USAID has not yet met this standard for success, its management believes that all of the above standards will be achieved once the Phoenix accounting system is fully deployed overseas. USAID has deployed Phoenix, its new core financial management system, in Washington and has completed the first round of overseas deployment in five overseas missions (Ghana, Egypt, Peru, Nigeria, and Colombia). Phoenix is a customized application of a commercial off-the-shelf software product which is compliant with the Joint Financial Management Improvement Program and meets federal accounting standards.

The OIG's *Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003* (Audit Report No. 0-000-05-001-C, dated November 15, 2004) included an unqualified opinion on USAID's financial statements. This is the second consecutive year that USAID has achieved an unqualified opinion.

The major issues in the audit report related to this standard are summarized below:

- USAID needs to implement Phoenix at its overseas accounting stations to meet federal financial management system requirements. According to USAID, all 38 accounting stations will be converted to the new system by June 2006.
- Currently, Phoenix overstates the amounts available for obligation since most overseas obligations are not reflected in Phoenix. To compensate for this weakness, USAID allowed only a few officials to apportion funds and provided them with information kept outside Phoenix. This problem should be corrected with the full deployment of Phoenix overseas.
- The Federal Financial Management Improvement Act of 1996 requires agencies to implement and maintain systems that comply substantially with the U.S. Government standard general ledger at the transaction level. In FY 2001, the OIG reported that USAID did not record mission activities using the standard general ledger at the transaction level and that mission activities accounted for about 52 percent of USAID's total net cost of operations. This problem should also be corrected once Phoenix is fully deployed overseas.
- Statement of Federal Financial Accounting Standard No. 4 requires federal agencies to accumulate and report the cost of activities on a regular and consistent basis for management information purposes. USAID's process for accumulating and reporting expenditures allocable to USAID's performance goals needs improvement to meet this

standard. USAID developed a process for obtaining certifications from its operating units to support this process, but used an incomplete source of information to request the certifications and did not always require that the certifications be provided in the same form. The OIG recommended that USAID amend its procedures to correct these deficiencies, and USAID has agreed to implement the recommendation.

- USAID's process for recognizing and reporting its accounts receivable needs improvement. Statement of Federal Financial Accounting Standard No. 1 requires the recognition (recording) of accounts receivable when a claim of cash or other assets has been established. USAID still does not have an integrated system for ensuring that its accounts receivable are complete, and no single person in USAID is solely responsible for ensuring that USAID's accounts receivable are accurate for interim and year-end financial reporting. Instead, the Agency relies on a web-based data collection tool to collect information on year-end accounts receivables at its overseas missions. This internal control weakness was reported in a previous audit report,¹⁸ and the OIG will continue to monitor USAID's progress in implementing the previous recommendation.

The OIG will continue its oversight of these areas, primarily through its annual audit of USAID's financial statements.

4.1.2 USAID provides accurate and timely interim financial information. (OMB Bulletin 01-09)

USAID is providing accurate and timely interim financial information.

The President's Management Agenda calls for improving financial performance by providing timely, reliable, and useful information. Accordingly, OMB has accelerated financial reporting due dates significantly. Beginning with the quarter ending March 31, 2004, agencies were required to submit quarterly unaudited financial statements to OMB 21 days after the end of each quarter, and beginning with the fiscal year ending September 30, 2004, agencies were required to submit audited financial statements to the President, OMB, and Congress by November 15, 2004 – 45 days after the end of the fiscal year.

For the second consecutive year, USAID has demonstrated its ability to meet OMB's accelerated financial reporting due dates and enabled the OIG to issue its final audit report on USAID's financial statements by November 15, 2004. Further, for the second consecutive year, the OIG rendered unqualified opinions on all of USAID's five financial statements.

4.1.3. USAID has integrated financial and performance management systems supporting day-to-day operations for both Washington and overseas accounting stations. (OMB Scorecard)

USAID will not meet this standard for success until it deploys its new accounting system (Phoenix) overseas and, in the view of USAID's Management Bureau, until a budget and performance module is integrated with Phoenix.

USAID has implemented Phoenix in Washington and has completed deployment of Phoenix to five pilot missions in Peru, Columbia, Ghana,

Nigeria, and Egypt. The OIG observed pilot testing of the Phoenix accounting system at USAID/Egypt and concluded that the pilot testing was successful.¹⁹ However, the OIG identified three issues that may affect the deployment of Phoenix to other missions:

- USAID is relying on old hardware that may not provide acceptable data communications between USAID/ Washington and overseas accounting stations.
- Some data migration processes may need to be modified before they are used by other missions.
- The deployment schedule may be too ambitious.

USAID is taking actions to address these observations but, in any case, a massive, coordinated effort will be required to deploy Phoenix to approximately 50 overseas missions in FY 2005 and FY 2006. Once deployed, Phoenix should provide accurate and timely data that can be used by managers to answer critical business and management questions.

4.1.4. USAID posts all financial transactions accurately and on a timely schedule. (Government Management Reform Act of 1994)

USAID has not yet met this standard.

The OIG's *Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003* (Audit Report No. 0-000-05-001-C, dated November 15, 2004) reported three principal deficiencies in the accurate and timely posting of transactions:

First, USAID does not record overseas financial transactions using the U.S. Government standard general ledger

¹⁸ *Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls and Compliance for Fiscal Years 2003 and 2002* (Audit Report No. 0-000-04-001-C, dated November 14, 2003)

¹⁹ *Interim Report on Phoenix Overseas Deployment Pilot Observation at Egypt* (Report No. A-000-05-001-S, dated October 13, 2004)

at the transaction level. The OIG has previously reported on this deficiency. Specifically, in FY 2001, the OIG reported that USAID did not record mission activities – accounting for approximately 52 percent of USAID's total net cost of operations – using the standard general ledger at the transaction level. This occurred because USAID recorded mission activities in the Mission Accounting and Control System, a computer-based system that did not have a standard general ledger chart of accounts. USAID needs to record mission activities using the standard general ledger at the transaction level to support financial reporting and meet FFMI requirements. USAID plans to convert all of its accounting stations to its new core financial system by June 2006.

Second, USAID cannot ensure that transactions are posted properly and consistently from mission to mission because USAID does not have a single integrated financial management system that includes all USAID accounting stations. While USAID began overseas deployment of its new core financial system, it has not deployed the new system in all overseas missions. Pilot deployment took place at USAID missions in Colombia, Egypt, Ghana, Nigeria, and Peru in June 2004. According to USAID officials, all 38 accounting stations will be converted to the new system by the spring of 2006.

Third, USAID does not record receivables in a timely fashion and does not have an integrated system for ensuring that its receivables are complete. Currently, USAID records receivables after its missions and the Office of Acquisition and Assistance notify USAID's Office of Financial Management that employees, vendors, contractors, and grantees owe funds to USAID. The OIG determined that USAID had inadequate supervisory controls for ensuring that USAID officials completely determined and reported

all validated receivables to the Office of Financial Management. Notably, approximately \$5 million of USAID's accounts receivable that have been outstanding for two years or more were not validated as of September 30, 2004.

The OIG will continue to monitor USAID's progress in resolving these matters. Additionally, in accordance with the Government Management Reform Act, the OIG will continue to conduct an annual audit of USAID's consolidated financial statements.

4.1.5. USAID provides timely reconciliation of financial data. (GAO internal control guidance)

The Agency has not yet met this standard.

The OIG's *Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003* (Audit Report No. 0-000-05-001-C, dated November 15, 2004) reported two principal deficiencies in the reconciliation of financial data.

First, USAID currently has limited ability to reconcile and correct differences between its reported fund balances and the control balances reported by the U.S. Treasury. While preparing the year-end closing statement, USAID made unsupported adjustments of \$95 million net (\$392 million in absolute value) to bring its balances in agreement with the U.S. Treasury. A net amount of \$35 million (\$201 million in absolute dollar value) in adjustments was reported in FY 2003. The OIG has recommended that USAID strengthen its internal controls over the fund balance reconciliation process.

Second, USAID did not reconcile its significant intragovernmental activities and balances with its federal trading partners throughout FY 2004. As of September 30, 2004, the U.S Treasury identified \$10.4 billion of unreconciled differences between USAID and other

federal agencies. USAID did not perform the reconciliations for FY 2004 because it did not effectively assign the necessary staff resources to reconcile its quarterly activities and balances with federal trading partners and promptly resolve differences. On the other hand, these same federal trading partners have not always attempted to do the same with USAID. The OIG has recommended that USAID conduct quarterly reconciliations with its intragovernmental trading partners.

The OIG will continue to monitor USAID's progress in resolving these matters. The OIG will also, in accordance with the Government Management Reform Act, continue to conduct the audit of USAID's consolidated financial statements.

OIG Strategic Objective 4.2: Provide timely, high-quality services to assist USAID in ensuring proper accountability of funds provided to contractors, grantees, and host governments.

Standards for Success for USAID:

4.2.1. Enhance accountability of U.S.-based grantees and contractors. (OMB Circular A-133, Single Audit Act, and Federal Acquisition Regulations)

USAID has established controls to accomplish this standard for success.

Under the Inspector General Act of 1978, the OIG is responsible for supervising all audits of USAID programs, including programs carried out by grantees and contractors. Many of these audits are financial audits conducted by external auditors. For these audits, the OIG performs quality control functions and tracks audit recommendations through the management decision stage (which is reached when USAID management decides on a firm plan of action for implementing the audit recommendations, including determining the amounts, if any, to be

recovered from grantees and contractors). USAID management also plays an important role in the audit program by making sure that financial audits are scheduled and performed when required, tracking audit recommendations from the management decision stage to the final action stage (when all actions agreed to by management as part of their management decision have been fully implemented), and taking action on audit recommendations.

Audits of U.S.-Based Grantees

As required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," non-federal auditors perform annual financial audits of USAID grantees that expend over \$500,000 of federal funds annually.

The OIG performs oversight of the non-federal auditors performing these audits and reviews non-federal audits to determine whether auditors prepared audit reports in accordance with Circular A-133 reporting requirements. The OIG also conducts quality control reviews to determine whether the underlying audits complied with Circular A-133 audit requirements. In some instances, the OIG contracts with the Defense Contract Audit Agency (DCAA) to perform specialized financial audits of U.S.-based grantees.

For U.S.-based grantees, during FY 2004, the OIG:

- Reviewed and issued 48 non-federal audit reports covering \$988 million in USAID funds.
- Completed 1 quality control review.
- Transmitted 2 DCAA reports covering \$6 million in USAID funds to USAID management.

Audits of U.S.-Based Contractors

Staff in USAID's Office of Acquisition and Assistance obtain incurred cost submissions from federal contractors who do a preponderance of their business with USAID. The Office of Acquisition and Assistance also contracts with DCAA to conduct audits of U.S.-based contractors for USAID on a reimbursable basis. The OIG then reviews these reports and transmits them to USAID management.

During FY 2004, the OIG reviewed and transmitted to USAID management 71 reports on U.S.-based contractors covering \$1.024 billion in USAID funds.

The efforts described above are complemented by pre-award surveys performed by personnel in the Office of Acquisitions and Assistance and, on occasion, by the OIG. Pre-award surveys help ensure that contractors and grantees have systems in place to properly account for USAID funds.

4.2.2. Enhance accountability of non-U.S.-based grantees and contractors. (USAID Automated Directives System Chapter 591 and Federal Acquisition Regulations)

USAID has established controls to achieve this standard.

OMB Circular A-133 does not apply to foreign-based contractors and grantees. But given the high-risk environment in which it operates, USAID has extended similar audit requirements to its foreign-based contractors and grantees through standard provisions included in grants, cooperative agreements, and contracts and through *Guidelines for Financial Audits Contracted by Foreign Recipients*, issued by the OIG.

Under the recipient-contracted audit program, audits are required for all foreign nonprofit organizations that expend \$300,000 or more in USAID funds during their fiscal years. USAID also may request financial audits of

nonprofit organizations that fall below the \$300,000 threshold. With respect to foreign for-profit organizations, incurred cost audits of direct awards or of cost-reimbursement host-country contracts and subcontracts must be performed annually.

The OIG reviews all audit reports and, if they are found to be in compliance with *Guidelines for Financial Audits Contracted by Foreign Recipients*, transmits the report to the appropriate USAID mission. The audit firms are notified of any problems identified in the review of the reports.

During FY 2004, the OIG reviewed and transmitted 256 audits of foreign-based organizations, covering \$968 million in USAID funds. The OIG also completed 44 quality control reviews of audits to ensure that the audits were completed in accordance with appropriate audit standards.

4.2.3. Enhance accountability of USAID's enterprise funds. (Foreign Assistance Act of 1961 and Support for Eastern European Democracy Act of 1989)

USAID has established controls to accomplish this standard for success.

Enterprise funds are U.S.-based nonprofit organizations established under the Support for Eastern European Democracy Act of 1989. USAID has established 11 Enterprise Funds, 10 of which invest in countries in Eastern Europe and Eurasia and 1 that invests in southern Africa. Enterprise funds are subject to annual financial statement audits performed by private accounting firms and reviewed by the OIG. During FY 2004, the OIG reviewed and transmitted to USAID five non-federal audit reports on enterprise funds covering \$8 million in USAID funds.

4.2.4. USAID obtains contractor, grantee, and host-country audits that meet standards and provide assurance that financial information is

reliable. (Support for European Democracy Act of 1989 and OMB Circular A-133)

As described in standards for success 4.2.1, 4.2.2, and 4.2.3 above, during FY 2004, USAID obtained 382 audits, and the OIG performed quality control procedures on these audits to help ensure that they met applicable auditing standards and provided assurance that reported financial information was reliable.

OIG Strategic Objective 4.3: Provide timely, high-quality services that will promote improvements in the creation of systems and IT infrastructures that are able to leverage capital investments, provide blueprints for IT solutions, and share data and information within USAID and with its customers.

Standards for Success for USAID:

4.3.1. USAID attains full compliance with the Clinger-Cohen Act of 1996.

For example, the Act requires but is not limited to the following:

- 1. Capital planning and investment controls.*
- 2. Performance-based and result-based management of information resources.*
- 3. Assignment of responsibilities within the Agency for management of IT.*

USAID has not fully achieved this standard for success. While it has established procedures that provide for disciplined IT project selection and management, in some cases these procedures have not been fully tested.

Capital Planning And Investment Controls

USAID's Business Transformation Executive Committee (BTEC)

approves IT investments of \$1 million or more, as well as certain smaller IT investments. The BTEC is advised by a Capital Planning and Investment Control Subcommittee. USAID has documented its capital planning and investment controls in ADS Chapter 577 and, according to the Assistant Administrator for Management, has applied these procedures in selecting IT investments.

GAO reported on USAID's IT strategic planning, performance measurement, and investment management processes in January 2004.²⁰ In response to this report, USAID has committed itself to taking the following actions:

- Contacting other federal agencies to benchmark its capital planning and investment control processes. Target date: December 31, 2004 (this will be an annual process).
- Amending ADS Chapter 577 to explicitly require that IT investments be in accordance with USAID's enterprise architecture. Target date: USAID established a target date of September 30, 2004 for this action, but ADS Chapter 577 has not yet been updated.
- Amending ADS Chapter 577 to require that proposed IT investments support work processes that have been simplified or redesigned to reduce costs and improve effectiveness and that make maximum use of commercial off-the-shelf software. Target date: USAID established a target date of September 30, 2004 for this action, but ADS Chapter 577 has not yet been updated.
- Requiring the use of return-on-investment, cost/benefit analysis,

or net present value criteria to select IT projects for investment. Target date: December 31, 2004.

- Completing a draft IT investment selection process that will identify possible conflicting, overlapping, strategically unlinked, or redundant proposals as part of the capital investment and investment control processes described in ADS Chapter 577. Target date: December 31, 2004.
- Integrating the requirement that investments be planned in segments or modules into its capital investment and investment control processes described in ADS Chapter 577. Target date: December 31, 2004.

Performance-Based and Result-Based Management of Information Resources

USAID has established a Program Management Office to manage its projects although the Office is not fully staffed. In addition, USAID has arranged for a contractor to provide assistance to the Program Management Office.

In response to the GAO study described above, USAID has committed itself to the following actions to strengthen its information resources management processes:

- Enhancing the work process flow for IT investment management and including it in ADS Chapter 577. Target date: December 31, 2004.
- Developing decision-making rules, reviewing projects at major milestones, and requiring reporting on deviations in system capability to help inform the investment management process. Target date: December 31, 2004.
- Requiring the use of an early warning system and independent

²⁰ *Information Technology Management: Governmentwide Strategic Planning, Performance Measurement, and Investment Management Can Be Further Improved* (GAO-04-49 dated, January 2004)

verification and validation reviews to help manage IT investments. Target date: December 31, 2004.

- Requiring that corrective actions be undertaken, tracked, and reported. Target date: December 31, 2004.

The OIG recently observed pilot testing of the Phoenix accounting system at USAID/Egypt and concluded that the testing was successful.²¹ However, the OIG's report also highlighted three issues that may affect the deployment of Phoenix:

- USAID is relying on old hardware that may not provide acceptable data communications between USAID/Washington and overseas accounting stations.
- USAID/Egypt's experience indicates that some data migration processes should be modified before they are used by other missions.
- The global deployment schedule for Phoenix may be too ambitious.

USAID has provided a detailed response to these observations and is taking actions to address them.

Assignment of Responsibilities Within USAID for Management of IT

USAID has a Chief Information Officer and a Deputy Chief Information Officer. The Information Resources Management Office and Program Management Office have been assigned specific responsibilities for IT management and support.

During FY 2005, the OIG plans to conduct an audit of USAID's process for deploying its core financial management system (Phoenix)

²¹ *Interim Report on Phoenix Overseas Deployment Pilot Observation at Egypt* (Report No. A-000-05-001-S, dated October 13, 2004)

overseas. In FY 2006, the OIG plans to conduct two audits on USAID's implementation of the Clinger-Cohen Act and the operations of USAID's Program Management Office.

4.3.2. USAID's major system investments comply with OMB Circular A-11. (OMB Circular A-11, Exhibit 53, Form 300)

The circular's provisions require but are not limited to the following:

- *Submitting to OMB, for all major system investments, a business case that complies with the circular's provision.*
- *Planning, budgeting, and acquisition of capital assets.*

(For example, IT investment should include the basis for selection of investment, principles of financing, and strategies for strengthening accountability for achieving project cost, schedule, and performance goals.)

According to information provided by OMB and USAID itself, USAID has met this standard for success.

According to USAID's Assistant Administrator for Management, USAID has developed business cases for all IT investments as required by OMB Circular A-11, and these business cases have been given strong ratings by OMB. OMB has also reported that USAID has submitted acceptable business cases for its major systems.

The OIG plans to audit USAID's information technology investment process, as well as the Agency's progress toward implementing a joint enterprise architecture with the Department of State, in FY 2006.

4.3.3. On average, all major IT projects operate within 10 percent of Form 300 cost, schedule, and performance targets. (OMB Circular A-11, Exhibit 53, Form 300)

In its September 30, 2004 scorecard on USAID's implementation of the President's Management Agenda, OMB reported that USAID's major IT projects are operating within 30 percent of cost, schedule, and performance targets. USAID hopes to bring performance within 10 percent of cost, schedule, and performance targets and thus meet this standard for success during FY 2005.

The OIG plans to audit USAID's performance measures for information technology initiatives during FY 2007 and USAID's management of information technology projects in FY 2008.

4.3.4. E-Government and Government Paperwork Elimination Act (GPEA) implementation must show department-wide progress or participation in a multi-agency initiative in the following areas:

- *Integrating citizen one-stop service delivery through www.firstgov.gov, cross-agency call centers, and offices or service centers.*
- *Minimizing the burden on business by reusing data previously collected or using ebXML or other open standards to receive transmissions.*
- *Achieving productivity improvements by implementing customer relationship, supply chain, enterprise resource, or knowledge management best practices.*

(President's Management Agenda-Expanding E-Government and OMB Scorecard)

USAID has not yet achieved this standard although it has taken actions toward that end.

In its September 30, 2004 scorecard on USAID's implementation of the

President's Management Agenda, OMB rated USAID's status in implementing the E-Government initiative as "yellow" (the medium score) and rated USAID's progress toward implementing the E-Government initiative as "green" (the highest possible score).

According to OMB and USAID's Assistant Administrator for Management, USAID is carrying out E-Government initiatives in several areas:

- E-Travel is a joint USAID-State Department initiative to provide travel services to employees at a lower cost.
- E-Grants is an initiative to invite applications for grants online.
- E-Authentication is an initiative to implement electronic signatures, reducing the need for hard copies of documents with manual signatures.
- E-Records is a less mature initiative that will reduce paperwork as contemplated by the Government Paperwork Elimination Act.

USAID has taken other steps to implement the E-Government initiative, such as posting links to forms and regulations on its internet home page to facilitate access by USAID's partners.

The OIG plans to audit USAID's E-Government initiatives in FY 2006.

OIG Strategic Objective 4.4: Provide timely, high-quality services that will contribute to improvements in the creation of systems and IT infrastructures that are able to leverage capital investments, provide blueprints for IT solutions, and share data and information within USAID and with its customers.

Standards for Success for USAID:

4.4.1. Security of USAID's information systems fully complies with federal requirements. (Federal Information Security Management Act of 2002 and OMB Circular A-130, Appendix III)

The Federal Information Security Management Act of 2002. For example, the Act's requirements include the following:

- *Annual agency reviews.*
- *Annual Inspector General or independent evaluations.*
- *Annual OMB reports to Congress that summarize the Inspector General and Agency reports.*
- *Annual agency performance plan that describes time periods for implementing the agency-wide security program.*
- *Agency incorporation of security practices throughout the life cycle of all systems.*

The Act also requires agencies to do the following:

- *Develop policy and procedures that are founded on a continuous risk-management cycle.*
- *Implement controls that assess information security risk.*
- *Continually monitor and evaluate policy and control effectiveness.*

OMB Circular A-130, Appendix III. For example, the Circular requires, but does not limit the requirement to, establishing an automated information security program and management structure that includes controls for access (passwords, intrusion detection, antivirus software, and system protection devices), application software development, system software (operating systems and

related utilities), segregation of duties, and contingency planning.

USAID has not yet fully achieved this standard for success but is making good progress toward meeting it. Computer security was identified as a material weakness in USAID's management controls in 1997. During FY 2004, USAID determined that this material weakness has been corrected. The OIG agrees with this determination although both USAID and the OIG recognize that certain aspects of USAID's security program still need to be strengthened.

USAID has an information security program and reviews its program annually in accordance with the Federal Information Security Act of 2002. The OIG annually verifies USAID's responses to questions that are provided by OMB concerning compliance with the Act.²²

Significant steps USAID has taken to ensure the security of its information resources include the following:

- Providing training to employees. Through a "Tips of the Day" program, all USAID employees, in order to log into USAID networks, must read short summaries of USAID's security policies and answer questions to ensure their understanding. Employees with significant responsibilities under the information security program may take online security courses.
- Conducting periodic network scans to identify vulnerabilities.
- Operating network intrusion sensors to detect unauthorized attempts to access USAID networks.

²² The most recent OIG audit report on compliance with the Act is *Audit of USAID's Compliance with the Provisions of the Federal Information Security Act of 2002* (Audit Report No. A-000-05-003-P, dated October 6, 2004)

- Establishing central control over firewalls for all USAID networks.
- Converting servers to Windows 2000, an operating system that incorporates many security improvements in comparison to Windows 98.
- Detecting and responding to security incidents.
- Developing and testing a continuity of operations plan. (This plan describes actions that would be needed to continue USAID's essential functions at an alternate site for up to 30 days.)

While significant progress has been made and computer security is no longer considered to be a material weakness in USAID's operations, USAID is working to correct certain security weaknesses identified by the OIG. For example, in its most recent audit of compliance with the Federal Information Security Act of 2002, the OIG determined that USAID had not developed disaster recovery plans for three major systems and had not tested disaster recovery plans for two other major systems.

During FY 2005, the OIG plans to conduct (1) an audit of USAID's compliance with the Federal Information Security Management Act of 2002 for FY 2005, (2) an audit of USAID/Washington's access controls over its general support systems and Phoenix for FY 2005, and (3) several audits of USAID overseas missions' access controls over financial management systems for FY 2005.

OIG STRATEGIC GOAL 5

Preserve and protect USAID program and employee integrity.

OIG Strategic Objective 5:1: Investigate allegations of fraud, waste, and abuse in the programs and operations of USAID.

Standards for Success for USAID:

5.1.1. USAID maintains the highest possible level of program integrity.

In concurrence with the OIG, the Agency has conducted activities in compliance with the standards for success as outlined below.

Program integrity is enforced via the ADS 200 series on USAID programming policies, which are the responsibility of PPC. The ADS, which was substantially revised in March 2002, is intended to help Agency employees understand their responsibilities and achieve development goals consistent with applicable rules, sound policy, and management practices. The Bureau also established specific policy and procedures in ADS Chapter 202 to avoid conflict of interest, ensure procurement integrity, and comply with ethics rules.

USAID staff also reported that financial staff and CTOs review vouchers to ensure that billed services/products are provided and that vouchers reflect costs authorized in contracts and grants, in accordance with the following:

- ADS Series 400, Personnel
- ADS 202.3.9, Avoiding Conflict of Interest, Ensuring Procurement Integrity, and Complying with Ethics Rules
- Federal Manager's Financial Integrity Act (FMFIA) and ADS-596.3.5, Annual Reporting on Management Controls

In addition, in accordance with ADS 203.3.10, USAID periodically reviews programs for programmatic soundness as well as progress toward phase-out goals and relevance and conformity with U.S. foreign policy and joint USAID-State strategic objectives.

5.1.2. USAID reduces fraud in major programs and contracts.

USAID strives to reduce fraud in major programs and contracts through compliance and enforcement of the same policies described under the previous standard for success. In addition, included in the ADS 200 series (authored by PPC) is a section (201.3.8) on mandatory technical analyses for developing strategic plans. Analysis helps planners determine whether Strategic Objectives (SOs) and intended results are appropriate and effective, and whether the plan can be implemented in the timeframe proposed and with the available resources. Per ADS 203.3.10, as of January 31, 2002, bureaus must conduct intensive program reviews of each operating unit or program (for which the bureau is responsible) at least once every three years. The purpose of the program review is to examine thoroughly how each program is proceeding, to provide an opportunity for Washington offices to examine planned and actual progress toward results set forth in the Results Framework and Performance Management Plan for each SO, and to review future resource requirements for each SO.

The Bureau for Europe and Eurasia noted that programs are designed, monitored, and modified when necessary to reduce opportunities for fraud. For example, specific disbursement procedures were established for the Bosnia Local Currency program in response to evidence of wide-spread corruption in the host country. Further, the majority of the Bureau's awards are with U.S. entities subject to annual audits.

The USAID General Counsel participates in Contract Review Boards which examine the possibility for fraud and provides annual ethics training.

In 2004, USAID strengthened the ADS requirements for financial management. The new language clarifies the CTO function for financial management responsibility. Furthermore, it adds accrual documents and supporting information and pipeline analysis to the list of documents required for maintaining official SO team files. The revised language directs the appropriate officials to the specific ADS chapter dealing with obligation and accrual management. It also clarifies the responsibility of the SO team to keep financial management documentation, emphasizing that management control review is an ongoing process.

Another way that USAID attempts to reduce fraud in major contracts is through the Audit Management and Resolution Program, which requires that all recipients of USAID funds carry out annual audits or other appropriate financial reviews. USAID also ensures that audit requirements are met by all beneficiaries.

Further, in accordance with the Improper Payments Information Act IPIA and guidance from OMB, USAID conducted a risk assessment of its FY 2003 outlays/payment streams. The assessment consisted of a review that identified those programs and activities that may be susceptible to significant erroneous payments with both an error rate of 2.5 percent and an error amount greater than \$10 million. Feedback was obtained from 38 overseas missions, feedback considered to be a true representation and risk assessment of the Agency's overall payment activity. Analysis of the data revealed that all payment activities and/or programs reviewed for FY 2003 were far below the 2.5 percent and greater than \$10 million OMB threshold for reporting error rates and for implementing an external recovery program. Moreover, the Agency's grant and contract payment activities continue to be closely monitored for erroneous payments

due to the high dollar value of these programs.

USAID also works to prevent program and contract fraud by assigning CTOs to each of the awards that it manages. These CTOs oversee the day-to-day activities of each award and approve or disapprove payment on all vouchers submitted based upon their personal knowledge of award activities and any related documentation that informs them as to the overall performance of vendors. Further, USAID encourages all bureau personnel to take full advantage of Agency training resources for appropriate contract and program management.

During the fiscal year, the OIG conducted numerous investigations involving contractors and grantees. For example, an investigation into fraudulent bidding in the Commodity Import Program by four different Egyptian importers resulted in the debarment of all four companies. In addition, an OIG investigation of a USAID-funded private voluntary organization resulted in the company president pleading guilty to one count of Obstruction of a Federal Audit and paying over \$861,000 in restitution. Further, an OIG investigation led to the conviction of a U.S. company for aiding and abetting in the commission of wire fraud and the making of a false claim to USAID. Finally, a multi-year OIG investigation resulted in a U.S.-based firm agreeing to pay the U.S. Government a \$1.5 million settlement to resolve all claims associated with the USAID Russia Project during the period 1995 – 1997. See tables below.

<i>FY 2004 OIG Investigative Actions</i>	
<i>Criminal</i>	
Prosecutive Referrals	10
Prosecutive Declinations	7
Indictments	4
Convictions	4
<i>Administrative</i>	
Personnel Suspensions	3
Resignations/Terminations	8

Recoveries	10
Suspensions/Debarments	10
Savings	7

<i>FY 2004 OIG Investigative Recoveries/Savings</i>	
(millions)	
Judicial Recoveries	\$1.1
Administrative Recoveries	6.9
Savings	5.5
Total Investigative Savings/Recoveries	\$13.5

According to the OMB Scorecard for September 30, 2004, the Agency maintained its "green" progress score by continuing to meet its target activities in the area of financial management. In both FY 2003 and FY 2004, USAID received an unqualified audit opinion on its financial statements.

However, the Agency's overall score for Financial Management is "red" which denotes that the Agency has not met all the core criteria for the President's Management Agenda (PMA). To get to "green" for the PMA, USAID needs to ensure that the Phoenix system provides accurate and timely data that is actively used by managers to answer critical business and management questions. Accurate and timely data is critical to program integrity.

In summary, the Agency has made significant progress under standards for success 5.1.1. and 5.1.2. To note some examples, USAID programming policies and procedures were substantially revised to avoid conflicts of interest, ensure procurement integrity, and comply with ethics rules. Agency financial staff review vouchers to determine the eligibility of costs. Agency programs were monitored and reviewed for planned versus actual progress, and recipients of USAID funds were required to carry out annual audits or other appropriate financial reviews. It is also important to note that the most significant

achievement by the Agency was the receipt of an unqualified opinion on its financial statements. In light of these accomplishments, the Agency has achieved this standard.

**OIG Strategic Objective 5.2:
Prevent fraud, waste, and abuse in
USAID's programs.**

In concurrence with the OIG, the Agency has conducted activities in compliance with the Standards for Success as outlined below.

Standards for Success for USAID:

5.2.1. USAID proactively prevents fraud in its programs and operations.

USAID has achieved this standard.

USAID proactively works to prevent fraud in its programs and operations through adherence to the policies described above in standard for success 5.1.1. and through the activities outlined below.

The Bureau for Global Health reported that, to prevent the use of funds for purposes not authorized by Congress, it had developed and carefully vetted annual guidance on the uses of the Child Survival and Health Programs Fund and Global HIV/AIDS Initiative Account funds – guidance which all operating units are aware of and required to follow. The major principles of this guidance are that funds are to be used for activities which respond to two key criteria: “direct impact” and “optimal use of funds.” There are specific AID/W approvals required if activities are proposed which generally do not meet such criteria.

The Bureau for Asia and the Near East noted that, in working with the OIG, it has arranged to have fraud training presented to employees in a number of the missions in the Asia and Near East region, with the goal of making staff members more aware of the conditions and symptoms that

indicate the presence of fraud. Moreover, all programs are structured to reduce the possibility of fraud, and with consistent monitoring of implementation activities, identified weaknesses are quickly remedied.

In other efforts to prevent fraud, the Bureau for Europe and Eurasia indicated that it reviews the financial capabilities of recipients before funds are distributed. In some cases, such as in Macedonia, the OIG has performed vulnerability assessments before recipients were selected and programs implemented. Fraud is further prevented through using U.S. entities subject to annual audit and relying on oversight through CTOs or activity managers making site visits and performing other oversight tasks. USAID considers its field presence and site visits to be key deterrents against fraud.

The Bureau for Management manages the Agency's management controls program and implementation of the Federal Managers' Financial Integrity Act (FMFIA). The program is an internal one for reviewing management controls, identifying risks and deficiencies, and establishing corrective action plans to address the issues.

Finally, the USAID Office of General Counsel provides annual ethics training to Agency employees around the world; and Agency employees who monitor or select contractors, as well as many other employees, are required to fill out annual financial disclosure forms. In addition, the Office of General Counsel regularly answers ethics questions related to procurement integrity and conflict of interest, relative to employment searches and post-employment activities involving USAID.

Moreover, the OIG periodically conducts fraud awareness training sessions to alert employees, contractors, and grantees to fraud schemes and fraudulent practices.

OIG's field presence and staff visits to project sites are key deterrents to fraud, waste, and abuse.

5.2.2. USAID corrects identified systemic problems.

USAID has made significant progress under this standard.

Corrective actions to systemic problems are processed under the Agency's audit follow-up and management control programs. For systemic problems identified via audit recommendations, the Bureau for Management, Management Planning and Innovation Division (M/MPI) analysts monitor the status of management decisions and final actions for all bureaus, offices, and missions. The Agency standard is to close audit recommendations with acceptable supporting documentation reflecting actions taken, while providing priority attention to audit recommendations over a year old and those needing management decisions. To do this, they coordinate and work closely with the responsible Audit Management Officer and Audit Action Officer of the bureau, office, or mission. For systemic problems identified via the management accountability and control program, on a quarterly basis, M/MPI analysts monitor and review the status of corrective actions for the internal control weaknesses identified by the bureaus, offices, and missions and work with the operational units to facilitate corrective action.

In other areas, in the Global Health Bureau's FMFIA submission to the Administrator, the Global Health Bureau identified the Agency-wide field support financial processes as a material weakness in FYs 2002, 2003, and 2004. An OIG draft audit report on the field support system, issued in October 2004, strongly supported Agency implementation of an improved field support transfer system. The Global Health Bureau successfully advocated for and, with

IRM, is leading the Agency's design of a new Executive Information System that will provide, for the first time, a reliable field support reporting system for Washington and the field, for implementation in FY 2005.

In a further example, a systemic problem for the Agency has been its lack of capacity to report adequately to OMB, Congress, and other constituents. In response, PPC funded the Joint Application Design, which is a facilitated series of workshops with developers and users of information systems to define the requirements of the Agency's information system. Based on this work, PPC hired a coordinator for the Agency's Executive Information System (EIS) and developed a plan with IRM to accelerate development and implementation of basic functionalities of EIS.

The Bureau for Europe and Eurasia has established a Bureau Data Resources Center that provides financial and other information to Congress and USAID's implementing partners that is not available elsewhere within the Agency at this time.

In addition, the Agency indicated that program analyses and evaluations are being strengthened to identify any systemic problems that may pose potential threats and vulnerabilities to programs and operations. Several new staff members have been recruited to strengthen program analysis and outreach communications in ways that will continue to meet this standard for success.

Moreover, by conducting the annual assessments required under the Federal Managers' Financial Integrity Act (FMFIA) and by mandatory attendance at annual "Standards of Conduct" training, employees and others are reminded of their responsibilities in this area. Posters and other media are also displayed in

missions and offices overseas to remind staff of these procedures.

The OIG will also continue to make recommendations for systemic improvement if weaknesses are uncovered in USAID programs and operations. During the fiscal year, OIG investigations resulted in a total of 29 systemic changes. For example, one OIG investigation into allegations that USAID senior staff, on a routine basis, improperly upgraded to business class air accommodations based on an intra-agency policy in place since 1992 caused USAID to reformulate its business class travel policy and bring it into full conformance with the Federal Travel Regulations.

5.2.3. USAID is able to identify potential threats and vulnerabilities to programs and operations before major problems develop.

USAID has made significant progress under this standard.

USAID operating units conduct ongoing evaluations of Agency management controls through risk assessments and the use of a management controls checklist tool which is updated annually by M/MPI staff. The idea is to avoid potential problems by identifying and correcting them internally. Resource constraints, delegations issues, policy conflicts, etc., are brought to the attention of higher-level management, who, according to the management control mandates, must address all problems brought to their attention. Bureau operating units also perform annual internal control assessments as called for by the FMFIA and general and/or host country contracting assessments. Additionally, USAID missions routinely request OIG assistance to carry out risk assessments of country programs to identify potential threats and vulnerabilities. Moreover, fully trained and certified CTOs are able to recognize potential threats and vulnerabilities and prevent them.

Furthermore, the Office of General Counsel collects and reviews financial disclosure forms from employees. These forms should indicate any potential conflicts of interest which could lead to program vulnerabilities.

The OIG has conducted risk assessments in the following countries: Kosovo, Brazil, Macedonia, Pakistan, and Serbia-Montenegro.

5.2.4. USAID employees, contractors, grantees, and others are aware of procedures for reporting fraud, waste, and abuse.

USAID has achieved this standard.

Procedures for reporting fraud, waste, and abuse are communicated via policies and procedures, primarily in the ADS 500 and 600 series, which include management and financial and budget policies. In addition, General Notices and Agency training, such as the Financial Management Overview course and required CTO certification courses, facilitate understanding and awareness.

Further, USAID mandates that the staff attend annual ethics courses. These courses specifically address the procedures for reporting fraud, waste and abuse and clearly establish that it is each employee's responsibility to report all suspect activity. In many missions, these courses are open to contractors and grantee staff.

USAID also ensures that audit clauses are incorporated into its financing mechanisms and arranges for required audits to be performed in a timely manner.

Moreover, USAID indicated that missions and the Washington office have OIG bulletins posted advising employees of procedures to follow in reporting fraud, waste and abuse anonymously or otherwise. Additionally, Agency-wide notices are circulated to all staff on security, fraud,

waste and abuse; and related Agency procedures are available on the USAID intranet. Furthermore, missions periodically invite RIG representatives to present training on how to prevent, detect, and report fraud, waste and abuse.

Finally, the annual ethics training provided by the General Counsel/Ethics Administration advises employees of their rights and duties, including the reporting of fraud, waste, and abuse.

As indicated above, the OIG is frequently asked by USAID to conduct fraud awareness training for USAID employees, contractors, and grantees. During these training sessions, the OIG promotes the OIG Hotline as a means to report fraud, waste, and abuse. In FY 2004, the OIG delivered fraud awareness training to 2,203 participants in 26 countries and received 3,243 Hotline contacts.

The OIG will continue to offer support and advice to USAID on proactive prevention strategies through meetings, presentations, conferences, and other forums.



An OIG investigator providing fraud awareness training to USAID personnel in Baghdad, Iraq.

In summary, the Agency has achieved standards for success 5.2.1 and 5.2.4 while making significant progress under standards for success 5.2.2 and 5.2.3.

OIG Strategic Objective 5.3: Preserve USAID employee integrity by investigating and concluding integrity investigations efficiently and expeditiously.

Although this objective does not specifically address a management challenge, the OIG will continue to work with the Agency to raise the standard for employee integrity. In concurrence with the OIG, the Agency has conducted activities in compliance with the Standards for Success as outlined below.

Standards for Success for USAID:

5.3.1. USAID maintains the highest possible level of personnel integrity.

USAID has achieved this standard.

USAID mandates that staff attend annual ethics courses that address issues of ethics and personal integrity and clearly establish the employee's responsibilities. In many missions, the courses are also open to contractor and grantee staff. Furthermore, selected staff are required to attend other courses, including CTO training; sign confidentiality statements before engaging in any procurement action; and submit annual financial certification.

When an investigative report reflects employee misconduct and is supported by evidence, an M/HR staff member contacts the appropriate supervisory official to discuss the issues raised in the report. After researching the applicable case law, M/HR prepares documentation for Agency management to propose disciplinary action, if appropriate. Further guidance also is obtained from the Office of General Counsel, Office of Ethics and Administration. After consultation, Agency management proposes action. When needed, deciding officials receive consultation and guidance from M/HR after the notice of proposed action is issued.

In addition to the above, the Office of Security (SEC) continues to conduct personnel security investigations with an emphasis on quality investigations that permit viable determinations for employment suitability and security clearance eligibility. SEC provides priority attention to cases of a derogatory nature. Applicable derogatory information is shared with Employee and Labor Relations Representatives in HR and other hiring authorities for respective suitability determinations.

SEC also employs effective liaison with members of the law enforcement community, such as Diplomatic Security, the USAID OIG, and other federal agencies. Information received from and provided to these agencies ensures that necessary actions or additional investigations are undertaken when warranted.

PPC promotes personnel integrity by complying with the Agency personnel policies regarding fairness and equity in the selection and placement of candidates under the Agency's Merit Promotion Program.

As of September 30, 2004, USAID staff totaled 8,117. During fiscal year 2004, the OIG opened 37 employee integrity investigations indicating that less than 0.5 percent of total Agency personnel were the subjects of an investigation. Only eight of those investigations resulted in criminal, civil, or administrative action. These statistics reflect the Agency's continuing commitment to encouraging and maintaining the highest standard of employee integrity.

5.3.2. USAID has an expeditious process for resolving personnel integrity issues.

USAID has achieved this standard.

All actionable personnel integrity cases are presented to M/HR. Once M/HR has obtained and reviewed all relevant information, a proposed

notice of pending disciplinary action is issued to the employee. Timelines for action are established by statute, regulation, Agency policy, and collective bargaining agreements; and USAID must balance its goal of expeditious processing with the statutory requirement for providing the employee with due process.

It is the responsibility of the OIG to investigate all allegations of personnel misconduct received from USAID personnel, contractors, grantees, the Hotline, and other sources. During this fiscal year, the OIG conducted numerous employee investigations within various Agency bureaus. To cite a few examples, an OIG investigation confirmed that a senior

official had utilized a U.S. Government vehicle for private purposes, and that official received a 30-day suspension. Another OIG investigation led to the termination of two Foreign Service National employees for irregularities. Further, an OIG investigation into allegations that USAID senior staff, on a routine basis, improperly upgraded to business class air accommodations based on an intra-agency policy in place since 1992 caused USAID to reformulate its business class travel policy to conform to Federal Travel Regulations.

These efforts reflect progress in the area of financial management. During the fiscal year, USAID has worked diligently with the OIG to resolve these

matters expeditiously. Finally, in most other instances, the allegations were unsubstantiated, and the employees were exonerated.

USAID has again achieved the standard for success under Objective 5.3.

It is the responsibility of the OIG to investigate all allegations of personnel misconduct received from USAID personnel, contractors, grantees, the Hotline, and other sources. During the investigative process, USAID works diligently with the OIG to resolve employee integrity matters. This joint effort demonstrates the commitment to preserve and protect employee integrity.

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